AMTELVREDESTEIN

AMTEL-VREDESTEIN N.V.

(A public limited liability company incorporated under the laws of the Netherlands)

Offering of 18,339,000 Ordinary Shares in the form of 18,339,000 Global Depositary Receipts Offer Price: USD 11.00 per Global Depositary Receipt

This prospectus (the **''Prospectus''**) relates to an offering (the **''Offering''**) of 18,339,000 ordinary shares, each with a nominal value of EUR 0.01 per share (the **''Shares''**), of Amtel-Vredestein N.V. (**''Amtel''** or the **''Company''**), a public limited liability company incorporated under the laws of the Netherlands, in the form of 18,339,000 global depositary receipts (**''GDRs''**), each without nominal value and each representing an interest in one Share. As part of the Offering, certain of the Company's shareholders (the **''Selling Shareholders''**) are collectively offering up to 4,426,075 Shares in the form of up to 4,426,075 GDRs.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **''Securities Act''**), or any state securities laws and may not be offered or sold in the United States of America (the **''United States''**) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Managers (as defined in ''Important Information about this Prospectus'') are offering the GDRs outside the United States pursuant to Regulation S under the Securities Act. The GDRs will not be offered in the Netherlands other than to professional market parties within the meaning of Section 1a, subsection 3 of the Exemption Regulation to the Act on the Supervision of the Securities Trade 1995, as amended (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*).

Amtel Luxembourg S.A. (''**Amtel Luxembourg**''), the Company's controlling shareholder (which is ultimately controlled by Mr. Sudhir Gupta), and Mr. Alexey Gurin, the Company's Chief Executive Officer, have each granted the Managers an option (the **''Over-Allotment Option''**), exercisable in the period during which stabilizing transactions may take place, to purchase up to 2,378,495 and 372,355 additional Shares, respectively, in the form of up to 2,378,495 and 372,355 GDRs, respectively, solely to cover over-allotments, if any, in the Offering. See ''Subscription and Sale.''

AN INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. SEE ''RISK FACTORS.'' The GDRs are of a specialist nature and should normally only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied to the Authority for the Financial Markets of the Netherlands (the **''AFM''**) for approval of this Prospectus pursuant to the Dutch Act on the Supervision of the Securities Trade 1995, as amended (*Wet toezicht effectenverkeer 1995*), the Dutch Decree on the Supervision of the Securities Trade 1995 as amended (*Besluit toezicht effectenverkeer 1995*) (the **''Dutch Decree on the Supervision of Securities Trade''**), and Directive 2003/71/EC of the European Parliament and of the Council of Ministers of the European Union. The Company has also applied to the U.K. Financial Services Authority (the **''U.K. Listing Authority''**), in its capacity as competent authority under the U.K. Financial Services and Markets Act 2000 (the **''FSMA''**), to admit up to 67,501,495 GDRs (of which 18,339,000 will be issued or sold on the closing date of the Offering and of which 2,750,850 will be sold pursuant to the Over-Allotment Option, if exercised) to its official list (the **''Official List''**) and to the London Stock Exchange plc (the **''London Stock Exchange''**) to admit the GDRs for trading under the symbol AMV on its market for listed securities through its International Order Book (regulated market segment) (**''IOB''**). The IOB is a regulated market for purposes of Investment Services Directive 93/22/EC. Admission to the Official List, together with admission to the London Stock Exchange's market for listed securities, constitutes listing on a stock exchange. Once approved, this Prospectus will be notified to the U.K. Listing Authority pursuant to the FSMA for purposes of listing the GDRs on the London Stock Exchange.

The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a ''when and if issued'' basis on or about November 14, 2005 and that unconditional trading through the IOB will commence on or about November 18, 2005. **All dealings in the GDRs prior to the commencement of the unconditional dealings will be of no effect if the admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.**

The GDRs will be evidenced by a master GDR (the **''Master GDR''**), which will be issued by The Bank of New York (the **''Depositary''**), registered in the name of The Bank of New York Depository (Nominees) Limited and deposited with The Bank of New York, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (**''Euroclear''**) and Clearstream Banking, *société anonyme* (**''Clearstream Luxembourg''**). Euroclear and Clearstream Luxembourg are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Company expects that delivery of the GDRs will be made through the facilities of Euroclear and Clearstream Luxembourg on or about November 17, 2005. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through Euroclear or Clearstream Luxembourg, as applicable. Transfers within Euroclear and Clearstream Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

For important information about this Prospectus, see ''Important Information about this Prospectus.''

Joint Global Coordinators & Bookrunners

UBS Investment Bank | **Alfa Capital Markets**

Co-Lead Managers

ING Bank | **Troika Dialog**

The date of this Prospectus is November 14, 2005.

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Summary

This summary highlights certain aspects of the business of the Company and its subsidiaries (the ***''Group''****) and the Offering and should be read as an introduction to the Prospectus. However, any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. No civil liability is to attach to the Company solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus. Where a claim relating to the information contained in the Prospectus is brought before a court, a plaintiff investor might, under the national laws of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.*

OVERVIEW

The Group is an international producer and supplier of tires for passenger cars, light trucks, heavy trucks, agricultural vehicles, aircraft and bicycles. According to ASM Holding, a consultancy that analyzes the Commonwealth of Independent States (**''CIS''**) automotive industry, the Group is one of the three largest tire manufacturers in the CIS. The Group is also a significant producer of tire industry-related raw materials, such as carbon black and polyamide-6 products. The Group operates integrated manufacturing facilities in Russia and the Netherlands, as well as a sales network in the CIS, Europe, North America and Asia.

The Group has experienced significant growth in recent years. The Group launched its tire business in 1997 and by 2004 had aggregate sales of approximately 21.8 million tires, on a pro forma basis. See ''Business–The Group–Evolution of the Group's tire business.'' In 2004, the Group had a 13.5% share of the overall Russian tire market and a 13.4% share of the Russian passenger car tire market, in each case in terms of unit sales on a pro forma basis. In April 2005, the Group expanded its operations outside the CIS by acquiring Vredestein Banden B.V. (**''Vredestein''**), a Dutch premium tire company. The Group estimates that Vredestein sold 4.6 million passenger car and light truck tires in 2004, giving it, in terms of unit sales, a 1.9% share of the overall European passenger car and light truck tire market and a 3% share of the German passenger car and light truck tire market, Vredestein's most significant market in Europe. According to 2003 worldwide revenues data published by the *European Rubber Journal,* the combination of the two businesses made the Group the twelfth largest global tire manufacturer.

On a pro forma basis, in 2004, the Group's revenues, EBITDA and net profits were RUB 18,437 million, RUB 2,675 million and RUB 288 million, respectively, of which RUB 7,912 million, RUB 1,462 million and RUB 368 million were attributable to Vredestein, respectively. On a pro forma basis, in the first six months of 2005, the Group's revenues, EBITDA and net profits were RUB 10,459 million, RUB 1,598 million and RUB 84 million, respectively, of which RUB 3,791 million, RUB 573 million and RUB 60 million were attributable to Vredestein, respectively. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

The Group focuses on the passenger car tire market, for which it produces A-, B- and C-segment tires. On a pro forma basis, sales of B-segment tires accounted for 10.7% and 20.7% of the Group's revenues in 2004 and the first six months of 2005, respectively. On a pro forma basis, Vredestein sold 18.2% and 9.8%, respectively, of the Group's B-segment tires in unit terms. On a pro forma basis, sales of A-segment tires accounted for 29.2% and 22.4% of the Group's revenues in 2004 and the first six months of 2005, respectively. Vredestein sold all of these tires. On a pro forma basis, sales of C-segment tires accounted for 9.4% and 9.2% of the Group's revenues in 2004 and the first six months of 2005, respectively. All of these C-segment tires were sold by members of the Group other than Vredestein.

The Group believes that the Vredestein Acquisition will help it penetrate the high-margin, growing Russian A-segment market, currently served exclusively by imports, and the growing Russian B-segment market, by giving it access to superior tire technology and sophisticated marketing practices. In the case of the A-segment market, the acquisition also gives the Group access to the well-regarded VREDESTEIN™ brand for use in the Russian market.

In the CIS, the Group sells tires in both the replacement equipment (**''RE''**) market, in which its principal customers are wholesale distributors, and in the original equipment (**''OE''**) market, in which its principal customers are automobile manufacturers in Russia. In Europe, the Group sells principally to the RE market, in which its principal customers are retail tire and fast-fit shops and, in the case of its SPACEMASTER™ brand spare tires, to premium vehicle manufacturers. On a pro forma basis, RE revenues accounted for approximately 84% of the Group's tire revenues in 2004 and approximately 82% in the first six months of 2005. On a pro forma basis, OE sales accounted for approximately 16% of the Group's tire revenues in 2004 and 18% in the first six months of 2005.

STRATEGY AND OBJECTIVES

The Group's objective is to continue to combine Western European tire technology, low-cost manufacturing capacity and active brand management to penetrate the A- and B-segments of the Russian passenger car tire market and provide its shareholders with superior profitability. To achieve this objective, the Group's management intends to pursue the strategies set forth below.

➤ Improve profitability by focusing on A- and B-segment passenger car tires in Russia;

➤ Cultivate brand awareness in Russia;

➤ Maximize utilization of its relatively low-cost Russian manufacturing base;

➤ Implement European technology and best practices in Russia;

➤ Continue outsourcing certain production;

➤ Continue to rationalize its cost structure; and

➤ Strengthen logistics and distribution channels in the CIS.

For a detailed discussion of these proposed strategies, see ''Business — Strategy.''

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Some of the most important risks are those relating to the Group's business and industry include:

➤ The Group's ability to address successfully issues associated with its significant growth through acquisitions, including the Vredestein Acquisition; significant competition in Russia; the success of the Group's strategy of prioritizing A- and B-segments over C-segment tires; reliance by the Group on a small number of customers in the OE market; and commoditization of the Group's products;

➤ The Group's relatively highly leveraged position and its ability to observe certain financial and other restrictive covenants under the terms of its indebtedness;

➤ The Group's dependence on its senior management and key personnel and difficulty in attracting and retaining such qualified employees; possibly inadequate internal accounting systems and controls;

➤ Price fluctuations for key raw materials; possible significant increases in the price of electricity in Russia; reliance by the Group almost exclusively on one supplier for bronze-coated bead wire; and supply by the Group's competitors of certain key raw materials;

➤ Possible product liability claims against the Group and product recalls; infringement of the Group's brand names and other intellectual property; and reliance by the Group on the GIUGIARO DESIGN™ brand name in its marketing of A-segment tires;

➤ The significant influence of the Group's indirect controlling shareholder over the Group; and possible challenges by minority shareholders of the Group's Russian subsidiaries of interested party transactions that may be concluded other than on arms-length terms;

➤ Insufficient insurance policies;

- Costs or operational restrictions associated with compliance with environmental and safety laws and regulations;
- Labor unrest and wage increases; and
- Possible disputes with third party off-take producers of the Group's tires.

Other important risks relate to the economic, political, social, legal and regulatory and tax environment in Russia and to the GDRs and their trading market. The occurrence of any of these risks could materially adversely affect the Group's business, financial condition or operating results and could cause the value of the GDRs to decline or to become worthless. See ''Risk Factors.''

DIRECTORS AND SENIOR MANAGEMENT

The Supervisory Board of the Company is comprised of: Messrs. Sudhir Gupta, Boris Bakal, Tarik Chaudri, Dominic Gualtieri, Daniel Gupta, Maxim Ignatiev, Mark Mobius, Gregory Van Beek, Ruben Vardanyan and David Wack. The Executive Board of the Company is comprised of Messrs. Alexey Gurin, Victor Nekrassov, Rob Oudshoorn and Ton Tholens. The Group also has a number of other senior managers important for the operation of its business. See ''Directors and Management.''

DOCUMENTS ON DISPLAY

Copies of this Prospectus, the Company's articles of association and certain other documents will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the office of Vredestein, at Ir. E.L.C. Schiff Sr. straat 370, P.O. Box 27, 7500 AA Enschede, The Netherlands, from the date of this Prospectus until twelve months after the date of this Prospectus. In addition, this Prospectus will be available at the London Stock Exchange through the Regulatory News Service. See ''General Information.''

THE OFFERING

The Offering	The Company and the Selling Shareholders intend to offer 18,339,000 Shares in the form of 18,339,000 GDRs, with one GDR representing one Share. As part of the Offering, the Selling Shareholders intend to offer up to 4,426,075 Shares in the form of up to 4,426,075 GDRs. If the Over-Allotment Option is exercised in full, certain Selling Shareholders will sell up to an additional 2,750,850 Shares in the form of 2,750,850 additional GDRs. See ''Principal and Selling Shareholders.'' The GDRs are being offered and sold outside the United States to certain persons in offshore transactions in reliance on Regulation S. The GDRs will be issued by the Depositary.
The Shares	At the date of this Prospectus, the Company's issued share capital consists of 53,588,570 ordinary shares fully paid with a nominal value of EUR 0.01 per share (the **''Ordinary Shares''**), all of which are fully paid. See ''Description of Share Capital and Certain Requirements of Dutch Law.'' Immediately after the Offering, the Company's issued share capital will consist of 67,501,495 Ordinary Shares. The Company's current authorized share capital consists of 222,148,650 Ordinary Shares and 12,494,200 (convertible) non-participating cumulative preferred shares (the **''Preferred Shares''**). The Shares have the rights described under ''Description of Share Capital and Certain Requirements of Dutch Law.''
The GDRs	One GDR will represent one Share on deposit with the Depositary. The GDRs will be issued by the Depositary pursuant to the Deposit Agreement between the Company and the Depositary. See ''Terms and Conditions of the GDRs.''
Offer Price	USD 11.00 per GDR.
Closing Date	November 17, 2005.
Over-Allotment Option	Amtel Luxembourg and Mr. Alexey Gurin have each granted the Managers an option, exercisable during the Stabilization Period (as defined in ''Important Information about this Prospectus'') to purchase up to 2,378,495 and 372,355 additional Shares in the form of GDRs, respectively, solely to cover over-allotments, if any, in the Offering or to cover short positions relating to stabilization activities. See ''Subscription and Sale.''

Lock-Up	Under the Underwriting Agreement (as defined in **"Subscription and Sale"**), each of the Company, Amtel Luxembourg, Sudhir Gupta and Alexey Gurin may not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing) any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs (each, a **"Prohibited Transaction"**) without the prior written consent of UBS Limited and Alfa Capital Holdings (together, the **"Lead Managers"**). Additionally, no other Selling Shareholder may enter into Prohibited Transactions, subject to an exception in respect of GDRs it might acquire in the secondary market after the pricing date, without the Lead Managers' prior written consent. Under the Deposit Agreement, the Depositary may not accept any Shares for deposit into the GDR facility during the 180-day period following the Closing Date (the **"Deposit Lock-Up Period"**). Furthermore, for an additional 180-day period following the end of the Deposit Lock-Up Period, the Depositary may accept Shares for deposit into the GDR facility only if the depositor delivers a certificate to the Depositary, copied to the Lead Managers, to the effect that if such depositor held any direct or indirect interest in any Shares before the Closing Date and has not entered into any lock-up agreement with the Managers, neither such depositor nor any of its subsidiaries or affiliates or any other person for its account has, during the Deposit Lock-Up Period, entered into a Prohibited Transaction (other than those that would be permitted if it were a Selling Shareholder) without the Lead Managers' prior written consent. See "Terms and Conditions of the GDRs" and "Subscription and Sale."
Listing and Trading	Prior to the Closing Date, there was no public market for the Shares or the GDRs. The Company expects that conditional trading in 21,089,850 GDRs (which will be issued on the Closing Date and of which 2,750,850 will be issued pursuant to the Over-Allotment Option) on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about November 14, 2005 and that unconditional trading through the IOB will commence on or about the Closing Date. All dealings in the GDRs prior to the commencement of the unconditional dealings will be of no effect if the admission does not take place and will be at the sole risk of the parties concerned. **The Shares have not been, and are not expected to be, listed on any stock exchange.**
Use of Proceeds	The Company estimates it will receive, after deduction of Managers' fees and commissions and other expenses payable by the Company, which are estimated to be approximately USD 12,131,918, net proceeds of approximately USD 140,910,257 million from the Offering. The Company intends to use such net proceeds

	for the purpose of repaying a portion of its existing indebtedness. See ''Use of Proceeds.'' The Company will not receive any of the proceeds of the Offering of the Shares represented by GDRs to be sold by the Selling Shareholders, all of which shall be paid to the Selling Shareholders.
Control of the Company	Immediately after the Offering but before the exercise of the Over-Allotment Option, Amtel Luxembourg, the Company's controlling shareholder, which is ultimately controlled by Mr. Sudhir Gupta, will own 37,256,450 Shares, or 55.2% of all Shares issued. If the Managers exercise the Over-Allotment Option in full, Amtel Luxembourg will own 34,877,955 Shares, or 51.7% of all Shares issued. The Company's controlling shareholder and entities related to it have engaged in a number of transactions with the Group. See ''Related Party Transactions.''
Dividend Policy	The Company did not pay dividends during the years ended December 31, 2002, 2003 and 2004 and does not expect to declare or pay any dividends for the foreseeable future. Instead, it expects to reinvest all net profits into its business. See ''Dividend Policy.''
Capitalization	The Group's total capitalization as of June 30, 2005 was RUB 20,781 million. The Group's total capitalization, as adjusted to give effect to the Offering and assuming full exercise of the Over-Allotment Option, but not adjusted for any other changes after June 30, 2005, is RUB 25,634 million. See ''Capitalization.''
Indebtedness	The Group's total indebtedness as of June 30, 2005 was RUB 18,060 million.
General Information	The security numbers for the GDRs offered hereby are as follows: ➤ ISIN: US03235R1014 ➤ Common Code: 023384507 ➤ SEDOL: BONQB23 ➤ London Stock Exchange trading symbol: AMV

An investment in the GDRs involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy GDRs. If any of the following risks actually occurs, the Group's business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of the GDRs could also decline and investors could lose all or part of their investment.

Described below are the risks and uncertainties that the Group's management believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those the Group's management currently is not aware of or deems immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the GDRs.

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

The Group has experienced significant growth as a result of acquisitions

As part of the Group's strategy, it has completed several acquisitions, including the Vredestein Acquisition, and it anticipates making further acquisitions in the future. See ''Business–Vredestein Acquisition.'' The Group's total assets increased from RUB 14,775 million as of December 31, 2004 to RUB 32,716 million as of June 30, 2005, and its total revenues increased from RUB 6,382 million for the six months ended June 30, 2004 to RUB 7,990 million for the six months ended June 30, 2005. Acquisitions may fail due to factors such as:

- Ineffective integration of the operations and personnel of the acquired businesses into the Group's business and unanticipated expenses related to such integration;
- A failure to realize synergies between the existing and acquired businesses;
- The incompatibility of acquired technology with the Group's existing manufacturing processes;
- Difficulties in, and costs arising from, the harmonization of information technology;
- Lack of coordination between the Group's employees and those of the acquired businesses, as well as differences in organizational cultures;
- The deterioration of relationships with employees as a result of possible downsizing measures;
- The deterioration of relationships with customers as a result of changes in product lines, customer service, sales and distribution or other areas of operations;
- Exposure to contingent liabilities of acquired businesses;
- The potential dilutive impact on earnings per share, as well as lower-than-anticipated revenues and cash flows.

The Group may be unsuccessful in addressing these and other obstacles to the successful integration of acquired businesses, which could have a material adverse impact on the Group's business, financial condition or results of operations.

The outcome of the Group's most recent acquisitions may differ materially from its expectations

In addition to general risks associated with the Group's strategy of expanding its business, there are specific risks related to the Company's most recent acquisitions, specifically, the Vredestein Acquisition. The Vredestein Acquisition represented a significant transaction for the Group because Vredestein had annual revenues under financial reporting standards accepted in the Netherlands (**''Dutch GAAP''**) of EUR 230.8 million, or approximately RUB 8,267.3 million, for the year ended December 31, 2004, representing 60% of the Group's annual revenues for the same period before the Vredestein Acquisition. Moreover, Vredestein had total assets under Dutch GAAP of EUR 141.4 million, or approximately RUB 5,346 million, as of December 31, 2004, representing 36% of the Group's total assets before the Vredestein Acquisition.

The outcome of the Vredestein Acquisition and its effects on the Group's results of operations may differ materially from the Company's expectations as a result of the following factors, among others:

➤ The Company's ability to integrate the business of Vredestein into that of the Group;

➤ The Group's ability to realize the intended strategic benefits of acquiring Vredestein, including its entry into the higher-margin A-segment of the Russian passenger car tire market;

➤ Unexpected or unforeseen liabilities, including those connected with tax, environmental, indebtedness and other liabilities of Vredestein incurred prior to or after the acquisition;

➤ Vredestein's ability to comply with the terms of its indebtedness and other contractual obligations;

➤ Exposure to foreign exchange risks that are difficult or expensive to hedge, since Vredestein's business is located in Europe with revenues and costs principally in euros;

➤ Vredestein's ability to protect its trademarks and intellectual property and to register trademarks and other intellectual property used by Vredestein in the past.

If the outcome of the Vredestein Acquisition differs materially from the Company's expectations, it may have a material adverse impact on the Group's business, financial condition or results of operations.

The Group faces significant competition in Russia that could lead to a reduction of market share and a decline in profitability

The Group competes in Russia primarily with Bridgestone Corporation (**''Bridgestone''**), Continental AG (**''Continental''**), Goodyear Tire & Rubber Company (**''Goodyear''**), Groupe Michelin (**''Michelin''**), Nokian Tires plc (**''Nokian''**) and Pirelli S.p.A. (**''Pirelli''**). According to *Tire Business,* an industry journal, these competitors collectively account for over 24% of sales in the Russian tire market. These competitors have greater brand recognition and stronger financial, distribution, purchasing and marketing resources than the Group. To compete effectively in the A- and B-segments of the Russian tire market, the Group must develop and implement a successful marketing strategy for its tires, accurately forecast market trends and develop and manufacture innovative products that meet consumer demand in a timely manner. However, the Group's marketing strategy may fail, forecasts of market trends may prove incorrect, and the Group may prove to have insufficient research and development and manufacturing capabilities to meet the demand for new A- and B-segment products in a timely manner.

If the Group's competitors expand their manufacturing capabilities or off-take arrangements in Russia, they may realize cost savings on labor and import duties similar to those enjoyed by the Group. In such event, the Group may lose its cost advantage over these competitors in Russia and may be unable to compete successfully against its current or future competitors and could permanently lose market share to them. Competitive pressures may reduce the Group's net profit and net cash flow provided by operating activities.

The Group's strategy of prioritizing the A- and B-segments over the C-segment may be unsuccessful

The Group has identified the A- and B-segments as the most profitable segments within the Russian passenger car tire market, and it believes that Russian consumers will pay a premium for high-quality A- and B-segment tires. The Group therefore plans to expand its presence in the Russian A- and B-segments. In 2004, A-segment and B-segment tire revenues accounted for 29.2% and 10.7% of the Group's revenues, respectively, on a pro forma basis. At the same time, the Group plans to decrease its sales of low-margin C-segment tires.

The Group's strategy of increasing production of A- and B-segment tires in search of higher margins and of decreasing sales of low-margin C-segment tires, which have historically provided a significant portion of the Group's revenues, may prove unsuccessful. Demand for C-segment tires may stay level or increase depending upon consumer trends and macro-economic factors. Conversely, the market for C-segment tires in Russia could decline more rapidly than the Group anticipates, resulting in impairment of assets that the Group uses to produce C-segment tires. Any of these scenarios could materially adversely affect the Group's business, financial condition or operating results.

The Group relies on a small number of customers in the OE market

Sales in the OE market accounted for 16.4% of the Group's total revenues in 2004 and 18.3% in the first six months of 2005, in each case on a pro forma basis. Historically, the Group has generated a substantial portion of its Russian OE sales from a relatively small number of customers. The Group's two largest Russian OE customers accounted for approximately 6% and of the Group's total revenues in 2004 on a pro forma basis. On a pro forma basis, the Group's two largest customers together accounted for approximately 36% of its total revenues in the OE market.

The OE market is not the Group's largest market on a historical basis or a pro forma basis. However, the Group believes that the OE market is important for the Group's future success in the RE market. OE sales tend to affect the domestic RE market because consumers often replace OE tires with RE tires of the same brand. The Group uses its position in the OE market to establish brand recognition and cultivate customer loyalty, both of which are crucial to generating follow-on sales in the more stable and higher-margin RE market. In addition, the Group believes that collaboration with original equipment manufacturers (**''OEMs''**) to develop new tire models helps it maintain a technological edge relative to competitors that do not have OEM contracts. Accordingly, loss of a major OEM customer could negatively impact RE and other OE sales, thus having a material adverse effect on the Group's business, financial condition or operating results.

Commoditization could cause substantial price erosion in the market for the Group's tires
The Group generally sells A-segment tires at lower prices than competitors such as Bridgestone, Goodyear, Michelin and Nokian. The Group also generally sells B-segment tires at lower prices than competitors such as Continental and Pirelli. If additional competitors enter the A- or B-segment tire market or existing competitors begin mass production of A- or B-segment tires, the tires in these segments may become commoditized. Commoditization would, in turn, cause prices, and therefore operating margins, to decline to levels significantly lower than those that currently prevail in these segments of the tire market. Such developments could undermine the Group's strategy and decrease the Group's market share and profit margins in these segments, which could have a material adverse effect on the Group's business, financial condition or operating results.

There is also a risk that mass production in the C-segment of the passenger car tire and light truck tire market could increase and make the Group's C-segment tires uncompetitive. Revenues from the sale of C-segment passenger car and light truck tires accounted for approximately 40.8% of the Group's revenues in 2004 and 20.3% in the first six months of 2005 on a historical basis and 20.2% and 15.5%, respectively, on a pro forma basis. A decrease in these revenues because of further commoditization of C-segment tires could have a material adverse effect on the Group's business, financial condition or operating results.

The Group is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put the Group into default
The Group is relatively highly leveraged as compared to its competitors, having total short- and long-term borrowings of RUB 18,060 million and total equity of RUB 8,518 million as at June 30, 2005.

The Group is subject to certain financial and other restrictive covenants under the terms of its credit linked notes (**''CLNs''**) issued in 2005. See ''Material Contracts.'' The CLNs benefit from guarantees from three of the Group's major Russian subsidiaries: OJSC Tyre Enterprise Amtel-Povolzhye (**''Amtel-Povolzhye''**), its largest manufacturing unit, OJSC Amtel-Vredestein, its main Russian holding and trading company and LLC Amtelshinprom (**''Amtelshinprom''**), a trading entity that consolidates part of the Group's cash flows. Vredestein is also subject to certain financial and other restrictive covenants under its syndicated loan facilities with ING Bank N.V. (**''ING Bank''**) and ABN Amro Bank N.V. (**''ABN Amro Bank''**) (the **''Syndicated Loans''**). Vredestein has pledged substantially all of its assets as collateral for the Syndicated Loans. See ''Material Contracts.''

Under the terms of the agreements that govern the CLNs and Syndicated Loans (collectively, the **''Loans''**), the Group is subject to certain restrictions limiting its ability to, among other things:

➤ Borrow money;

➤ Create liens;

➤ Give guarantees;

➤ Make acquisitions;

➤ Sell or otherwise dispose of assets; and

➤ Engage in mergers, acquisitions or consolidations.

The Syndicated Loans also contain covenants that require Vredestein to maintain a specified debt to equity ratio, debt coverage ratio and interest coverage ratio. Other restrictions in the Loans could hinder the Group's ability to carry out its business strategy and its ability to make payments on the Loans. In addition, a breach of the terms of Loans could cause a default under the terms of the Group's other indebtedness, causing some or all of the Group's other indebtedness to become due and payable. Such default could result in the Group's creditors proceeding against the collateral securing its indebtedness. Such action could materially adversely affect the Group's business, financial condition or operating results. If the Group's indebtedness were to be accelerated, it is uncertain whether the assets of the Group would be sufficient to generate the funds necessary to repay it.

In past financings, the Group has pledged as collateral a significant percentage of shares that it holds in some of its subsidiaries, including Vredestein and OJSC Tyre Enterprise Amtel-Tchernozemye (**''Amtel-Tchernozemye''**) and may do so to secure future financings. Any enforcement of such pledges could cause the Group to lose control of such subsidiaries, which could materially adversely affect the Group's business, financial condition or operating results.

The Group's internal accounting systems and controls may be inadequate to ensure timely and accurate financial reporting

At the end of the audits of the financial statements for the years ended December 31, 2003 and 2004, the Group's independent auditors recommended several improvements in the Group's internal accounting systems and controls. Among these recommendations were the establishment of an internal audit function, unification of management accounting and International Financial Reporting Standards (**''IFRS''**) reporting, development of a unified accounting and reporting system for all group members, documentation of areas where significant judgment and accounting estimates are required, documentation of all related party transactions and development of detailed procedures for the assessment of provisions for receivables and inventories in preparation for the audit. The Group has implemented a minority of the recommendations that were made and is in the process of evaluating and implementing the rest. Principally, the Group established an internal audit function in April 2005. However, since this internal audit function is new, it remains largely untested. The Group may be and may historically have been unable to detect or prevent a material misstatement of its annual or interim IFRS consolidated financial statements.

The Group depends heavily on its senior management and key finance, marketing and technical personnel, and it may face difficulty in attracting and retaining such qualified employees

The Group's business depends, in significant part, upon the continued contributions of its key senior managers and personnel, including its Chief Executive Officer, Mr. Alexey Gurin. The Group cannot be certain that these managers will continue to make their services available in the future. In particular, the Chief Executive Officer of the Company may terminate his employment at any time without penalty or other sanction. In addition, some of the Company's key senior managers, such as its Chief Financial Officer, Head of Sales and Marketing and Head of Raw Material Purchasing, are new to their positions and will thus take time to grow fully into their roles. See ''Directors and Management.'' Failure by the Group to retain its key managers or failure by the new managers to perform their functions successfully could materially adversely affect the Group's business, financial condition or operating results.

To manage its growth and development successfully, the Group also depends on its ability to continue to attract, train, motivate and retain highly skilled employees. The Group faces intense competition for such employees due to the scarcity of qualified individuals, so in the future, it may be increasingly difficult for the Group to hire qualified personnel. Furthermore, although the Group attempts to structure its compensation packages in a manner consistent with the evolving standards of the labor market in the countries in which it operates, it may lose some of its most talented personnel to its competitors, which could materially adversely affect the Group's business, financial condition or operating results.

The Group's supply of key raw materials is subject to price fluctuations, including highly volatile oil and natural rubber prices

The principal raw materials used by the Group are synthetic rubber, carbon black, tire cord, natural rubber, and petrochemical products. Increases in the prices of crude oil or natural rubber on international markets could materially affect the Group's manufacturing costs. In 2004 and the first six months of 2005, based on historical information, costs of the Group for natural and synthetic rubber were approximately 51.3% and 50.8%, respectively, of the Group's total raw material costs, and approximately 29.2% and 26.4%, respectively, of the Group's total cost of goods sold.

Increases in the price of synthetic rubber could materially affect the Group's manufacturing costs. In 2004 and the first six months of 2005, synthetic rubber costs amounted to approximately 46.7% and 46.9%, respectively, of the Group's raw material costs. The price of synthetic rubber, as well as that of many other raw materials, including tire cord, carbon black and certain chemicals, that require derivatives of oil to produce, are sensitive to oil prices, and any increase in world oil prices could inflate the prices for such products. For example, Exxon reports that every USD 5.00 increase in the price of crude oil leads to a USD 100.00 increase in the per ton price of butyl, a key component of a synthetic rubber compound used in the manufacture of the Group's tire products. The recent increases in crude oil prices will likely further raise the price of synthetic rubber.

Increases in the price of natural rubber could also materially affect the Group's manufacturing costs. In 2004 and the first six months of 2005, natural rubber costs amounted to approximately 4.6% and 3.9%, respectively, of the Group's raw material costs. The price of the natural rubber the Group acquires is closely linked to prices quoted on commodities exchanges. Historically, the price of natural rubber on the world market has been highly volatile, increasing from an average price per ton of approximately USD 1,097 in 2003 to USD 1,274 in 2004. The Group expects prices to increase in the coming years as both worldwide demand for natural rubber and harvesting costs in producing countries increase.

Due to the nature the Group's sales contracts with its distributors and the competitive nature of its business, it may be impossible for the Group to pass these costs along to its customers. As such, increasing costs of natural rubber, synthetic rubber and other raw materials could materially adversely affect the Group's business, financial condition or operating results.

The price of electricity in Russia may increase significantly over the next few years as the Russian power sector undergoes reform

RAO UES, the electricity monopoly in Russia, is undergoing extensive reforms under which it will be reorganized into competitive and non-competitive segments. RAO UES's generation, distribution and supply operations will be reorganized into competitive businesses, whereas its transmission business will be transferred to a state-controlled monopoly. Concurrently, Russia will introduce a competitive market for electricity. Despite the high degree of uncertainty surrounding the restructuring process, the Group expects that after market liberalization, electricity prices may increase significantly.

Electricity accounted for approximately 8.2%, 6.6% and 5.3% of the Group's costs of tires sold in Russia for the years ended December 31, 2003 and 2004 and for the six-month period ended June 30, 2005, respectively. Most of the Group's Russian subsidiaries receive electric power exclusively from local utility companies belonging to local authorities. Such subsidiaries are unable to source power from alternative sources and thus are exposed to any adverse movements in electricity prices. Therefore, increasing electricity prices could materially adversely affect the Group's business, financial condition or operating results.

The Group relies on a small number of suppliers for steel cord

The Russian factories of the Group obtain a significant proportion of certain raw materials from a small number of suppliers in the CIS. In particular, the Group's main supplier of metal cord used in the production of A- and B-segment tires is Belorussian Steel Works (**''BSW''**), which is the only CIS producer of bronze-coated beadwire and cord of sufficient quality for the production of tires for these segments. Prior to 2005, BSW supplied approximately 85% of the Group's total requirements for this metal cord. In 2005, the Group diversified its pool of metal cord suppliers to include two suppliers used by Vredestein. Any disruption in the supply of metal cord could have a material adverse affect on the Group's business, financial condition or operating results.

Although the Group has begun to enter into supply agreements with other suppliers of steel cord for its A- and B-segment tires, the Group may be unable to diversify its suppliers of steel cord adequately or to do so on commercially attractive terms. Any disruption in supply from BSW could materially and adversely affect the Group's production and thus its business, financial condition or operating results.

The Group's competitors supply it with certain key raw materials, and they could withdraw or delay such supply to gain a commercial advantage over the Group

Several of the Group's key competitors, including JSC Sibirsko-Uralskaya Neftegazohimicheskaya Kompaniya (**''Sibur''**), supply the Group with the chemical DFE, an essential raw material for the production of the Group's tires. See ''Business–Competition.'' On one occasion, Sibur's failure to supply DFE led to the brief suspension of all production at the Group's Russian plants. Sibur also supplies the Group with synthetic rubber. The Group's competitors could seek to obtain a commercial advantage by failing to supply, or failing to supply in a timely manner, key raw materials. Any disruption in deliveries from suppliers of key materials could have a material adverse effect on the Group's business, financial condition or operating results.

The Group could be subject to product liability claims and product recalls that may adversely affect its results of operations

Any material product defect in the Group's tires that are sold to third parties could expose the Group to product liability claims or require the Group to undertake service actions or product recalls. Satisfying such liability claims or undertaking such service actions or recalls could require the Group to expend considerable resources. Although none of the Group's products has, to date, been subject to material liability claims, service actions or recalls, any such event in the future could materially adversely affect the Group's business, financial condition or operating results. Additionally, because product quality and the perception thereof significantly influence a customer's decision to purchase tires, any such liability claims, service actions or recalls could, even if they successfully address the underlying defects, decrease the Group's future sales and profitability, thereby materially adversely affecting the Group's business, financial condition or operating results.

Infringement of the Group's trademarks and other intellectual property could materially adversely affect the Group's business

Because the Group depends heavily on brand recognition and the goodwill associated with it, the AMTEL™, VREDESTEIN™, MALOYA™ and other brand names and trademarks are key to its business. Substantial erosion in the value of the brands on which the Group relies, whether due to product recalls, customer complaints, adverse publicity, legal action or other factors, could materially adversely affect the Group's business, financial condition or operating results.

Russia and the other CIS countries in which the Group operates generally enforce intellectual property rights to a lesser degree than countries in Europe and North America. Although the Company's management believes that it has taken appropriate steps to protect its trademark and other intellectual property rights, such steps may be insufficient, and third parties could infringe or challenge such rights, either of which could materially adversely affect the Group's business, financial condition or operating results.

The Group relies on the GIUGIARO DESIGN™ brand name in its marketing of certain A-segment tires

The Giugiaro Design division of Italdesign Giugiaro S.p.A. (**''Giugiaro Design''**), a prominent Italian automotive and consumer products design firm, designs certain tire treads for VREDESTEIN™ brand tires and allows the Group to use the GIUGIARO DESIGN™ brand name in the Group's marketing of such tires. Vredestein enters into a separate agreement with Giugiaro Design for the design of each such VREDESTEIN™ brand tire. Under such agreements, the Group typically has the right to use the GIUGIARO DESIGN™ brand name for five to seven years in connection with the production, marketing and sale of each such tire designed by Giugiaro Design. The Group does not have an exclusive or long-term arrangement with Giugiaro Design. Failure by the Group to enter into new agreements with Giugiaro Design for future brands, or commencement by Giugiaro Design of services for the Group's competitors, may materially adversely affect the Group's business, financial condition or operating results.

The Group's indirect controlling shareholder exerts significant influence over it, and his interests may conflict with those of other shareholders and GDR holders

Mr. Sudhir Gupta, who is chairman of the Company's Supervisory Board, controls Amtel Luxembourg, which currently owns 69.52% of the Company's issued share capital. Following the Offering, Mr. Gupta will, through Amtel Luxembourg, control 55.2% of the Company's issued share capital and 51.7% if the Over-Allotment Option is exercised in full. Consequently, Mr. Gupta can exert significant influence over certain actions requiring shareholder approval, including, among other actions, the appointment, suspension and dismissal of members of the Executive Board and the Supervisory Board, the declaration of dividends and certain material management decisions such as the transfer of a material part of the activities, the entering into or termination of a material joint venture or material acquisition or disposition by the Company or one of its subsidiaries. See ''Directors and Management'' and ''Description of Share Capital and Certain Requirements of Dutch Law.''

The Company's Articles provide that a simple majority can adopt resolutions at a shareholders' meeting, except in those cases in which Dutch law or the Articles require a greater majority. Accordingly, the Company's controlling shareholder will have the power to determine the outcome of most matters decided by a vote at a shareholders' meeting and, as long as he holds a majority of the Company's Ordinary Shares, will determine the appointment and removal of directors. The Company's controlling shareholder will also be able to determine or significantly influence the outcome of a vote on any proposed amendment to the Articles, merger proposal, proposed sale of substantially all assets and other major corporate transactions. See ''Description of Share Capital and Certain Requirements of Dutch Law.'' In addition, Mr. Gupta and entities related to him have engaged in several transactions with the Group that may not have been on completely arms-length terms. See ''Related Party Transactions.''

The interests of Mr. Gupta could conflict with the interests of the Company's other shareholders and the holders of the GDRs, and Mr. Gupta may make decisions or undertake transactions with the Group that materially adversely affect an investment in the GDRs.

The Group engages in interested party transactions that minority shareholders in its Russian subsidiaries could contest or that may be concluded other than on arms-length terms.

Under Russian law, **''Interested Party Transactions''** require approval by disinterested members of the board of directors or shareholders of the companies involved. Interested Party Transactions include transactions in which an Interested Party (as defined below) is:

➤ A party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

➤ The owner of at least 20% of the issued voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;

➤ A member of the board of directors or an officer of the legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or

➤ Another person set forth in the company's charter.

An **''Interested Party''** is any of the following:

➤ A member of the board of directors of a company;

➤ A member of the management board of a company;

➤ Any person that owns, together with its affiliates, at least 20% of a company's voting shares;

➤ Any person entitled to give binding instructions to a company; or

➤ Any relative or affiliate of such persons.

Some of the Russian companies that comprise the Group engage in Interested Party Transactions that are important to the Group's business. See ''Related Party Transactions.'' In particular, the Company owns less than 100% of Amtel-Povolzhye, which has engaged, and will continue to engage, in numerous Interested Party Transactions with companies in the Group. In June 2005, the shareholders' meeting of Amtel-Povolzhye approved, as Interested Party Transactions, the granting of a guarantee and security interest in connection with the CLNs and an unrelated finance lease. In June 2004, the Group transferred a 15% stake in Amtel-Povolzhye to an entity outside the Group, subject to an option to reacquire such 15% stake, which it exercised in July 2005. The sale and repurchase was effected to enable the Group to enter into the transactions referred to above. The transferee voted in favor of the approvals. The Company considers the transactions to have been properly approved under the Interested Party Transaction rules and has accounted for the transaction on the basis that the approval was properly obtained. If a Russian court were to invalidate the approvals, it could trigger a default under, and acceleration of, the CLNs and finance lease, as well as cross-defaults under other indebtedness of the Group, which could have a material adverse effect on the Group's business, financial condition or operating results. See note 20(c) to the Group Interim Financial Statements and note 29(c) to the Group Annual Financial Statements.

Although the Group attempts to obtain all corporate approvals required to consummate Interested Party Transactions, including intragroup transactions, it cannot be certain that it has obtained all such approvals or done so in a manner that fully complies with Russian law, particularly since some of the concepts relating to Interested Party Transactions are subject to differing interpretations under Russian law. As a result, minority shareholders could contest such transactions and cause their invalidation. Historically, the Group has not had claims of any material nature by any minority shareholder, but it is possible that in the future such a claim could be made. Additionally, although the Group generally attempts to engage in Interested Party Transactions at arms'-length, it may conclude some of them on terms not determined by market forces.

Under Russian law, certain ''major transactions,'' including charter amendments, major transactions involving more than 50% of the assets of the company involved, share repurchases and share issuances, require the approval of three quarters of the holders of voting stock present at a shareholders' meeting. Any failure by the Group's shareholders to approve interested party or other transactions in the future could limit the Group's operational flexibility, materially adversely affecting its business, financial condition or operating results.

The Group's insurance policies may be insufficient to cover losses arising from business interruption, damage to its property or third-party liabilities

The Group has insurance policies covering its owned real estate, inventory, equipment and vehicles. However, such insurance policies might be insufficient to cover in full losses arising as a result of a business interruption or damage to property as a result of fire, explosion, flood or other circumstances. In addition, the Group maintains third-party liability insurance for its Russian subsidiaries only where, and only to the extent that, Russian law so requires. This is because the market does not provide additional coverage on commercial terms. If the Group suffers material losses or incurs a significant liability, its insurance policies might be insufficient to cover such losses or liability, which could materially adversely affect its business, financial condition or operating results.

Compliance with environmental and safety laws and regulations could require the Group to incur costs or restrict its operations in a manner that could materially adversely affect the Group's business, financial condition or operating results

The Group's business of manufacturing tires may potentially be damaging to the environment. The Group is subject to a variety of environmental laws and regulations, including those regulating the use, handling, treatment, storage, discharge and disposal of substances and hazardous wastes used by or generated in its manufacturing facilities in Russia and in the Netherlands. The Group must invest financial and managerial resources to comply with such environmental laws and regulations. The Group's capital expenditures relating to environmental compliance on a historical basis were approximately RUB 64.5 million in 2004.

The Group will likely be subject to increasingly stringent environmental standards in the future and may be required to make additional capital expenditures relating to environmental matters on an ongoing basis. If the Group fails to comply with current and future environmental laws and regulations, it could be subject to severe penalties, possibly including suspension of production. Environmental laws and regulations could also restrict the Group's ability to expand its facilities or could require the Group to acquire costly equipment or incur other significant expenses in connection with its manufacturing processes. The Group currently believes that compliance with existing laws and regulations and the cost of remediation efforts will not materially adversely affect the Group's business, financial condition or operating results. However, material future expenditures may be necessary if applicable environmental laws or regulations change or if unknown environmental conditions are discovered. If in the future the Group is required to incur material expenditure in order to comply with new environmental laws, this could materially adversely affect the Group's business, financial condition or operating results.

Labor unrest and wage increases entered into as a result of collective bargaining could materially adversely affect the Group's business

As of September 30, 2005, approximately 8,300 employees, or 47% of the Group's total employees, were members of labor unions in Russia. In addition, approximately 400 employees, or 2% of the Group's total employees, were members of labor unions in the Netherlands. Although the Group currently believes its relations with its employees and the labor unions to be good, any future disputes with the employees or labor unions could result in labor unrest and other disruptions to the Group's business. In addition, the process of collective bargaining with such labor unions may result in employee wages increasing to levels higher than those that would have prevailed absent such collective bargaining. Each of these scenarios could materially adversely affect the Group's business, financial condition or operating results.

The Group procures some tires pursuant to off-take arrangements with third parties, a dispute with whom could materially adversely affect its business

The Company produces agricultural and industrial tires pursuant to certain off-take agreements (the **''Sourcing Agreements''**) with Balkrishna Tires, PT Industri Karet Deli (Deli Tire) and Lion Tyres (Thailand) Ltd., located in Indonesia, India, and Thailand, respectively. The Company produces bicycle tires and tubes pursuant to Sourcing Agreements with Ralson Tires, located in India. In 2004, the Group derived EUR 34.3 million in revenues, on a pro forma basis, from the sale of tires produced pursuant to the Sourcing Agreements. The Sourcing Agreements are terminable by either party on six months' notice. A dispute in connection with, or any failure to renegotiate the terms of, any such Agreement or disruption in the production of such tires at the facilities operated by any of the above-named companies, may lead to a loss in revenue to the Group, which loss in revenue may materially adversely affect the Group's business, financial condition or operating results.

RISKS RELATING TO THE ECONOMIC ENVIRONMENT IN RUSSIA

A significant portion of the Group's business is in Russia. Investments in Russia, such as the GDRs, carry certain region-specific risks.

Fluctuations in the global economy may materially adversely affect the Russian economy and the Group's business
The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of natural gas and oil, the Russian economy is especially sensitive to the price of natural gas and oil on the world markets, and a decline in the price of natural gas or oil could slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices. Russia is also a major producer and exporter of metal products, and its economy is vulnerable to world commodity prices and the imposition of tariffs and antidumping measures by the United States, the European Union or by other principal export markets. These developments could severely limit the Group's access to capital and could materially adversely affect the financial condition of the Group's customers and thus the Group's business, financial condition or operating results.

Emerging markets such as Russia and the other CIS countries are subject to greater risks than more developed markets, and turmoil in other emerging markets could disrupt the Group's business
Emerging markets such as Russia are subject to greater risk than more developed markets, including, in some cases, increased political, economic and legal risks. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Emerging markets such as Russia are subject to rapid change, and the information set out herein may become quickly outdated.

Moreover, financial turmoil in any emerging market country tends to adversely affect the value of investments in all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect its economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any other emerging market country could seriously disrupt the business of companies operating in Russia, as well as result in a decrease in the price of the GDRs.

Economic instability in Russia could adversely affect the Group's business
Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

➤ Significant declines in gross domestic product;

➤ Hyperinflation;

➤ An unstable currency;

➤ High levels of government debt relative to gross domestic product;

➤ A weak banking system providing limited liquidity to domestic enterprises;

➤ The continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;

➤ Significant use of barter transactions and illiquid promissory notes to settle commercial transactions;

➤ Widespread tax evasion;

➤ Growth of a black and gray market economy;

➤ Pervasive capital flight;

➤ Corruption and extensive penetration of organized crime into the economy;

➤ Significant increases in unemployment and underemployment; and

➤ The impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets.

The near-collapse of the Russian banking sector after the events of August 17, 1998 aggravated these problems. This near-collapse further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in losses of bank deposits in some cases. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. See ''–The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on the Group's business.''

Recent favorable trends in the Russian economy, such as the increase in gross domestic product, a relatively stable ruble and a reduced rate of inflation, may not continue or may be abruptly reversed. For example, in the first six months of 2005, the inflation rate in Russia increased and economic growth slowed. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect the business of companies operating in Russia, including the Group.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on the Group's business

From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the circulation of various rumors and, in some cases, regulatory and liquidity problems, several privately owned Russian banks collapsed or ceased or significantly limited their operations. Several other privately owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately owned Russian banks collapsed or ceased or severely limited their operations. In general, the turmoil did not adversely affect Russian banks owned or controlled by the government or the Central Bank of Russia. Nonetheless, there are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. Most Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still falls short of internationally accepted norms.

The Group has attempted to reduce its risk by placing funds in several Russian banks, including subsidiaries of foreign banks. Nonetheless, the Group holds most of its excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks, in part, because it is required to do so by CBR regulations and because the ruble is not transferable or convertible outside Russia. There are few, if any, safe ruble-denominated instruments in which the Group may invest its excess ruble cash. Another banking crisis, or the bankruptcy or insolvency of the banks from which the Group receives or with which it holds its funds, could result in the loss of the Group's deposits or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, financial condition or operating results.

The physical infrastructure in Russia is in very poor condition, which could disrupt normal business activity

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communications systems and building stock. For example, during the winter of 2000 to 2001, electricity and heating shortages in Russia's far eastern Primorye region seriously disrupted the local economy. In August 2000, a fire at the main communications tower in Moscow interrupted television and radio broadcasting for weeks. In May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. The deterioration of physical infrastructure in Russia harms its national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the Group's business, financial condition or operating results.

The Russian government is actively pursuing plans to reorganize its rail, electricity and telephone systems, as well as the public utilities. Any such reorganizations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems.

Illiquid trading markets make it difficult for the Group to establish the fair market value of financial instruments that it holds

Active, liquid trading markets can help establish the fair value of financial instruments, which is often evidenced by a quoted market price. The illiquidity of financial markets in Russia makes it difficult for the Company to establish the fair value of financial instruments that it holds. For example, the Group's management has concluded that, due to such lack of liquidity and the lack of published ''indicator interest rates'' in the Russian market, it is not practicable to determine the fair value of certain related party financial instruments. See note 27(d) to the Group Annual Financial Statements. Although the Group's management uses available market information to estimate the fair value of financial instruments, such information may not reflect the value of such instruments as fully or accurately as would a quoted market price.

RISKS RELATING TO THE POLITICAL ENVIRONMENT IN RUSSIA

Political instability or the reversal of reforms could adversely affect the value of investments in Russia

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a market-oriented economy, but the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

The course of reform has been uneven, and the composition of the Russian government, in particular, the prime minister and the other heads of federal ministries, has been highly unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. On December 31, 1999, President Yeltsin unexpectedly resigned. Vladimir Putin was subsequently elected president on March 26, 2000 and reelected for a second term on March 14, 2004.

President Putin has maintained political stability and policies generally oriented towards the continuation of economic reforms. In February 2004, President Putin dismissed his entire cabinet, including Mikhail Kasyanov, the Prime Minister for most of Mr. Putin's presidency, and appointed Mikhail Fradkov as Prime Minister. Shortly thereafter, a presidential decree reduced the number of ministries from 30 to 14 and overhauled governmental structures, dividing the government into three levels: ministries, services and agencies. In addition to restructuring the Russian federal government, President Putin has implemented reforms under which the population no longer directly elects the governors of Russia's subfederal units. See ''–Conflict between central and regional authorities could create an uncertain operating environment hindering the Group's long-term planning ability and decrease the value of investments in Russia.'' Furthermore, President Putin has proposed to eliminate single-member district elections for the State Duma, so that voters would only cast ballots for political parties.

Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could also disrupt or reverse economic and regulatory reforms. Any disruption or reversal of the reform policies, recurrence of political or governmental instability or occurrence of conflicts with powerful economic groups could have a material adverse effect on the Group's business, financial condition, operating results and prospects and the value of investments in Russia, and the price of the GDRs could decline as a result.

Reversal of reforms could decrease the value of investments in Russia

Under President Putin, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in the consensus among key governmental officials are beginning to appear, raising questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform program, could lead to a deterioration in Russia's investment climate that might constrain the Group's ability to obtain financing in the international capital markets and otherwise harm its business and results of operations.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos (**''Yukos''**), then Russia's largest oil producer, on tax evasion and related charges. In May 2005, they were each sentenced to nine years imprisonment on these charges and in September 2005, the court rejected their appeal. Significant back tax claims were also brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz (**''Yuganskneftegaz''**), and the effective destruction of Yukos. OAO NK Rosneft, a state-owned oil company, indirectly acquired Yuganskneftegaz, resulting in the first effective renationalization of a significant company privatized in the 1990s.

Some analysts contend that the arrests, destruction of Yukos and renationalization of Yuganskneftegaz portend a willingness on the part of the Putin administration to reverse key political and economic reforms of the 1990s, including certain privatizations. Other analysts, however, believe that these arrests were isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution. In March 2005, President Putin announced that he had instructed Prime Minister Mikhail Fradkov to draft legislation that would reduce the statute of limitations on privatizations from ten years to three years. The government approved a draft bill in mid-May 2005, though it still must be approved by the State Duma and the Federation Council and signed into law by the president before becoming effective.

In May 2005, President Putin ordered Prime Minister Mikhail Fradkov to submit to the State Duma by November 1, 2005 draft laws limiting foreign ownership of sectors that ''ensure government security,'' which may include defense, oil and metals. The nature and scope of any such limitations that may be proposed is currently uncertain.

Conflict between central and regional authorities could create an uncertain operating environment hindering the Group's long-term planning ability and decrease the value of investments in Russia

Russia consists of 89 subfederal political units, some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the federal government. The delineation of authority among and within Russia's subfederal units is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory matters. Subfederal units have enacted conflicting laws in areas such as privatization, land ownership and licensing. In addition, President Putin recently implemented reforms under which the population no longer directly elects the governors of Russia's subfederal units. Instead, the President nominates such governors, and the subfederal unit's legislature confirms their nomination. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This tension creates uncertainties in the operating environment in Russia, which hinders the Group's planning ability and may prevent it from carrying out its business strategy effectively.

Ethnic and other conflicts create an uncertain operating environment that could hinder the Group's long-term planning ability and decrease the value of investments in Russia

Ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and military conflict. Russian military and paramilitary forces were engaged in Chechnya from 1994 to 1996 and have continued to maintain a presence there since 1999. Various Chechen paramilitary groups have regularly engaged in guerrilla attacks in Chechnya and elsewhere in the Caucasus. Violence and attacks relating to this conflict have spread to other parts of Russia. The further intensification of violence, including terrorist attacks and suicide bombings, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect the Group's business and the value of investments in Russia, including the value of the GDRs.

RISKS RELATING TO THE SOCIAL ENVIRONMENT IN RUSSIA

Crime and corruption could disrupt the Group's ability to conduct its business

Since the dissolution of the Soviet Union, criminal activity, including organized crime, has significantly increased in Russia, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, high levels of official corruption reportedly exist in locations where the Group conducts its business, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of the government officials or certain individuals. Additionally, published reports indicate that a significant number of Russian media outlets regularly publish slanted articles in return for payment. Corruption and other illegal activities could disrupt the Group's ability to conduct its business effectively, and claims that the Group was involved in such corruption or illegal activities could generate negative publicity, both of which might harm the Group's business, financial condition or operating results.

Social instability could lead to labor and social unrest, renewed centralized authority or increased nationalism

The failure of the Russian government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the increasing cost of living, could lead to labor and social unrest, increased support for centralized authority and a rise in nationalism. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to a strike that included blockading major railroads. In 2005, Russian pensioners organized street protests against government proposals to monetize in-kind benefits. Such labor and social unrest could disrupt normal business operations, which also could materially adversely affect the Group's business, financial condition or operating results.

RISKS RELATING TO THE LEGAL AND REGULATORY ENVIRONMENT IN RUSSIA

Weaknesses relating to the legal system and law create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of the GDRs

Russia is still developing the legal framework necessary for a market economy. In Russia, a new legal regime, as established by the 1993 Federal Constitution (the **''Constitution''**), has largely replaced Soviet law. The Group's business in Russia is subject to the Russian Civil Code, other federal laws and decrees, orders and regulations issued by the President, the government, the federal ministries and the Central Bank of Russia, as well as regional and local rules and regulations. These legal norms at times overlap or contradict one another. Among the risks of the current Russian legal system are:

- Inconsistencies among federal laws, the Constitution, decrees, orders and regulations issued by the President, the government, federal ministries and regulatory authorities and among regional and local laws, rules and regulations;
- Limited judicial and administrative guidance on interpreting law;
- The relative inexperience of judges in interpreting law;
- Corruption within the judiciary;
- Substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- A high degree of discretion on the part of governmental authorities; and
- Poorly developed bankruptcy procedures that are subject to abuse.

The recent nature of much of Russian law, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. All of these weaknesses could affect the Group's ability to enforce its rights under contracts, or to defend against claims by others.

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of the Group's operations, could result in substantial additional compliance costs or sanctions

The Group's operations and properties are subject to regulation by various government entities and agencies, in connection both with obtaining and renewing various licenses and permits and with continuing compliance with existing laws and regulations. Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring licensees' compliance with the terms thereof, and in interpreting and enforcing applicable laws and regulations. Russian authorities have the right to, and frequently do, conduct periodic inspections of the Group's operations and properties. Any such future inspections may conclude that the Group has violated applicable laws or regulations, and the Group may be unable to refute such conclusions or to remedy such violations. Such conclusions may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Group's licenses and permits, a requirement that the Group cease certain of its business activities or criminal and administrative penalties could be instituted against the Group's officers, each of which could materially adversely affect the Group's business, financial condition and operating results.

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent the Group or holders of the GDRs from obtaining redress in a court proceeding, including redress for expropriation or nationalization

The independence of the Russian judicial system and its immunity from economic, political and nationalistic influences remain largely untested. The Russian court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction where judicial precedents generally have little binding effect on subsequent decisions. Many court decisions are not readily available to the public. The Russian judiciary can be slow or unjustifiably swift, and enforcement of court orders can be very difficult. Moreover, parties often use legal claims in furtherance of political objectives. The government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes. All of these factors make judicial decisions in Russia unpredictable and effective redress uncertain.

These uncertainties also extend to property rights. During its transition from a centrally planned to a market economy, Russia has enacted laws to protect private property against expropriation and nationalization. However, due to lack of experience in enforcing these provisions and to political pressure, courts might not enforce these protections in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Group's entities, its assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, financial condition and operating results.

Unlawful, selective or arbitrary government action could adversely affect the Group's business

Governmental authorities have a high degree of discretion in Russia and sometimes act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Key government officials have allegedly engaged in private business while in office, including in the industry that these officials regulate. Moreover, the Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes.

Standard & Poor's has expressed concerns that ''Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups.'' In this environment, the Group's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at the Group's operations in Russia, could have a material adverse effect on its business, financial condition and operating results.

Developing corporate and securities laws and regulations in Russia may limit the Group's ability to attract future investment

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies, managers and investors. In addition, several different agencies regulate the Russian securities market, including:

➤ The Federal Service for the Financial Markets;

➤ The Ministry of Finance;

➤ The Federal Antimonopoly Service;

➤ The Central Bank of Russia; and

➤ Various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be inconsistent.

In addition, Russian corporate and securities regulations can change rapidly, which may adversely affect the Group's ability to conduct future securities offerings. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Group. Moreover, from time to time, some of the Group's subsidiaries may not have been in full compliance with Russian securities law reporting requirements. Violation of these reporting requirements could result in the imposition of fines or difficulties in registering subsequent share issuances. As a result, the Group may be subject to fines or other enforcement measures despite its best efforts at compliance, which could materially adversely affect the Group's business, financial condition and operating results.

Shareholder liability provisions of Russian law could expose the Company to liability for its Russian subsidiaries' obligations

The Company has several Russian subsidiaries. In general, the Civil Code and the Federal Law on Joint Stock Companies provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. However, limited liability may be unavailable if one person (the **''Effective Parent''**) can give compulsory instructions to another person (the **''Effective Subsidiary''**). This doctrine applies regardless of the source of the Effective Parent's ability to give compulsory instructions to the Effective Subsidiary. For example, this liability could arise through ownership of voting securities or by contract.

Shareholder liability obtains if:

➤ The Effective Parent actually gives compulsory instructions to an Effective Subsidiary; and

➤ The Effective Subsidiary's liability arises from actions that it takes pursuant to the compulsory instructions.

Furthermore, an Effective Parent also bears secondary liability for the debts of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's actions or inactions. In both these circumstances, the Effective Subsidiary's minority shareholders can claim compensation from the Effective Parent for the Effective Subsidiary's losses.

Accordingly, the Company could be liable, in some cases, for the debts of its consolidated Russian subsidiaries. This liability could have a material adverse effect on the Group's business, financial condition and operating results.

Appraisal and preemptive rights provisions of Russian law may impose additional costs on the Group

Under Russian law, shareholders of a Russian joint stock company that vote against or abstain from voting on some decisions have ''appraisal rights,'' or the right to sell their shares to such company at market value. The decisions that trigger this right to sell shares include:

➤ A reorganization;

➤ The approval by shareholders of a ''major transaction,'' in the event that a Russian joint stock company's board of directors is unable to reach a unanimous decision to approve the transaction and regardless of whether the transaction is actually consummated. A ''major transaction'' is one whose value comprises over 50% of the assets calculated in accordance with Russian accounting standards (**''RAS''**); and

➤ The amendment of the charter in a manner that limits shareholder rights.

A company's obligation to purchase shares in these circumstances, is limited to 10% of its net assets, calculated according to RAS at the time the decision is taken. The application of these appraisal rights to Russian subsidiaries of the Group could have an adverse effect on the Group's cash flow and the Group's ability to service its indebtedness.

Deficiencies and ambiguities in Russian bankruptcy law could lead to successful challenges to the Group's ownership of its Russian subsidiaries
Russian bankruptcy law often differs from bankruptcy laws of the Netherlands, England and other European countries, and it is subject to varying interpretations.

The Group acquired a substantial part of its assets from entities that were subject to bankruptcy proceedings. To the extent that Russian bankruptcy law is vague, inconsistent, or in conflict with other laws, many acquisitions from entities that were subject to bankruptcy proceedings are arguably deficient and, therefore, vulnerable to challenges, including selective challenges. Any such challenge to the Group's Russian assets acquired under bankruptcy proceedings could cause the Group to incur significant litigation costs and, if successful, to lose control and ownership of such assets, materially adversely affecting the Group's business, financial condition or operating results.

Deficiencies and ambiguities in Russian privatization law could lead to successful challenges to the Group's ownership of its privatized Russian subsidiaries
The Group has acquired several privatized Russian companies. To the extent that Russian privatization laws are vague, inconsistent or in conflict with other laws, many privatizations are arguably deficient and, therefore, vulnerable to challenges, including selective challenges. For instance, in 1991 and 1992, a series of presidential decrees granted the Moscow city government the right to adopt its own privatization procedures, but the Constitutional Court of the Russian Federation subsequently held these decrees invalid on the grounds that they addressed issues that were properly within the scope of federal law. This court ruling was, in theory, self-executing and did not require any implementing legislation.

Any challenges in respect of privatized companies that the Group has acquired could cause the Group to incur significant litigation costs and, if successful, to lose control and ownership, if applicable, of such companies, materially adversely affecting the Group's business, financial condition or operating results.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person who lacks the right to dispose of such shares, a violation of interested party or major transaction rules and failure to register the share transfer in the company's securities register. See ''Risks relating to the Group's business and industry –The Group engages in interested party transactions that minority shareholders in its Russian subsidiaries could contest or that may be concluded other than on arms-length terms.'' As a result, defects in earlier transactions in shares of the Group's Russian subsidiaries may, where the Group acquired such shares from third parties, cause the Group's title to such shares to be subject to challenge. If a challenge of an earlier transaction proved to be successful this may result in the Group losing control and ownership, if applicable, of such companies, materially adversely affecting the Group's business, financial condition or operating results.

RISKS RELATING TO TAXATION

Characteristics of and changes in the Russian tax system could materially adversely affect the Group's business, financial condition, results of operations and an investment in the GDRs
Russian companies are subject to substantial taxes that include, among others:

➤ Income taxes;

➤ Value-added tax (**''VAT''**);

➤ Mineral resources extraction tax and export duties;

➤ Unified social tax; and

➤ Property tax.

The Russian tax system has undergone significant changes in recent years. Tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the **''Tax Code''**), which sets forth general taxation guidelines. Since then, Russia has been in the process of replacing laws concerning corporate income tax, VAT, property tax and other major taxes with new chapters of the Tax Code.

Russia's tax laws and regulations are subject to frequent change, varying interpretations and inconsistent enforcement. In practice, the Russian tax authorities rarely interpret tax laws in ways that favor taxpayers, who often must resort to court proceedings to defend their position against the tax authorities. Recent events suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. In some instances, Russian tax authorities have applied new interpretations of tax laws retroactively. Tax authorities can impose severe fines, penalties and interest charges.

Generally, tax declarations remain open and subject to inspection by tax and customs authorities for three years after the tax year to which they relate. Within this three year period, the tax authorities may re-open inspections for a given tax year even if they closed a previous inspection for that year. In particular, the tax authorities may re-open audited years if the taxpayer has restructured or wound up its operations or if a higher-ranking tax authority reviews the accuracy of a subordinate tax authority's audit. In addition, in July 2005, the Russian Constitutional Court issued a decision that allows for the extension of this three year period if a court determines that a taxpayer has obstructed or hindered a tax inspection; because the decision does not define these terms, tax authorities have broad discretion to argue that a taxpayer has ''obstructed'' or ''hindered'' such inspections.

Russian tax law does not allow related entities to net off to net profits and losses for tax purposes within one consolidated group. As a result, each of the Company's subsidiaries pays its own profit taxes and cannot offset its profit or loss against the loss or profit of the Company's other subsidiaries. Moreover, Russian companies cannot consolidate the financial results of their subsidiaries for tax purposes. Therefore, each of the Company's Russian subsidiaries pays its own Russian taxes and cannot offset its profit or loss against the loss or profit of any of its other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9% (15% if distributed to foreign residents). If the recipient of a dividend itself pays an upstream dividend, it may offset its withholding tax against taxes on such upstream dividend, so long as it does not pay the upstream dividend to a foreign resident. In addition, recently, the Constitutional Court of the Russian Federation ruled that VAT paid on a commercial enterprise's purchases, or input VAT, cannot be offset against VAT collected from sales to the extent that the input VAT was incurred on items purchased with borrowed funds.

The foregoing conditions create more significant tax risks in Russia than in countries with more developed tax systems, imposing additional burdens and costs on the Group's operations, including management resources. In addition to the Group's substantial tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing the Group to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could materially adversely affect the Group's business, financial condition or operating results. See also ''Risks relating to the legal and regulatory environment in Russia–Unlawful, selective or arbitrary government action could adversely affect the Group's business.''

The Group could face large and perhaps arbitrary tax claims

Since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has aggressively cracked down on certain Russian companies' use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Federal Tax Service determined that Yukos owes over USD 28 billion in back taxes and related penalties, and, as noted above, in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies including TNK-BP, telecommunications companies, including OAO Vimpelcom and other major companies.

In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. However, in April 2005, the back tax claim against TNK-BP for 2001 increased by RUB 22 billion, bringing the total claim against TNK-BP for 2001 to RUB 26 billion, and Sibneft, another oil company, received a back tax claim for RUB 21 billion. However, in his annual address to the Federal Assembly in April 2005, President Putin stated that tax authorities should not ''terrorize'' taxpayers by repeatedly considering the same problems.

Although the Group believes that it is currently in compliance with all of its tax obligations with respect to its operations in Russia, the Federal Tax Service could become more aggressive in respect of future tax audits, which may have an adverse effect on the Group's business, financial condition and operating results.

Entities related to the Group may not have complied with tax laws

Several entities within the Group have used special purpose entities (**''SPEs''**), mainly in periods before December 31, 2002, in which they did not hold any direct or indirect equity interest, for tax and customs duty minimization purposes. The methods used by the SPEs to reduce taxation are not fully compliant with applicable Russian and Ukrainian tax law. The management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs, however, the management of the companies of the Group may also be held responsible indirectly. Lack of full compliance by the SPEs with applicable Russian and the Ukrainian tax law could result in such tax, customs duties and other liabilities (and related penalties and interest), which could have a material adverse affect on the Group's business, financial condition and operating results. See note 20(d) to the Group Interim Financial Statements and note 29(d) to the Group Annual Financial Statements.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact the Group's business

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and arbitration courts and their use in politically motivated investigations and prosecutions.

Due to the uncertainties in interpretation of transfer pricing laws, the tax authorities may challenge the Group's prices and propose adjustments. Any transfer pricing audits of the Group could have a material adverse effect on the Group's business, financial condition and operating results, as might any price adjustments if upheld by the Russian courts. In addition, the Group could face significant losses associated with the assessed amount of tax underpaid and related interest, which could have a material adverse effect on the Group's business, financial condition and operating results.

The Duma is expected to pass new transfer pricing legislation in the autumn of 2005, which reportedly will introduce more effective transfer pricing rules. This legislation could authorize the tax authorities to levy the assessed amount of tax underpaid and related interest at rates significantly higher than those that currently prevail, as well as to introduce penalties.

RISKS RELATING TO THE GDRS AND THE TRADING MARKET

The Deposit Agreement for the GDRs and the relevant requirements of Dutch law limit or exclude the voting rights of GDR holders with respect to the Shares

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs and will be able to exercise voting rights with respect to such Shares only in accordance with the Deposit Agreement relating to the GDRs. See ''Terms and Conditions of the GDRs.''

GDR holders face practical limitations on their ability to exercise voting rights due to the additional procedural steps involved in communicating with them. For example, applicable Dutch law and the Company's Articles both require the Company to notify shareholders at least fifteen days in advance of any shareholders' meeting. The Company's shareholders will receive such notice directly from the Company and can exercise their voting rights either by attending the meeting in person or voting by proxy.

By contrast, GDR holders will receive no such notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will dispatch such notice to the Depositary. In turn, the Depositary has undertaken, if the Company so requests in writing and at the Company's expense, to mail, as soon as practicable thereafter, copies of voting materials (if and as received by the Depositary from the Company) to each GDR holder, as well as a statement as to the manner in which GDR holders may give voting instructions. To exercise their voting rights, GDR holders must then instruct the Depositary as to how to vote the Shares represented by the GDRs that they hold.

Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares. GDR holders may not receive voting materials in time to enable them to return timely voting instructions to the Depositary. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

Additionally, GDR holders will be unable to instruct the Depositary to:

➤ Vote the Shares represented by their GDRs on a cumulative basis;

➤ Introduce resolutions on the agenda of shareholders' meetings or request the convocation of shareholders' meetings; or

➤ Nominate candidates for the Company's Supervisory Board.

GDR holders who wish to take such actions must timely request the cancellation of their GDRs and take delivery of the underlying Shares, thus becoming the owner of such Shares on the Company's share register. See ''Terms and Conditions of the GDRs.''

An active trading market for the GDRs may not develop, and their price may be highly volatile
There is currently no market for the GDRs or public trading in the Shares. Although the Company has applied to the AFM for approval of this Prospectus and to the U.K. Listing Authority for up to 67,501,495 GDRs (of which 18,339,000 will be issued or sold on the Closing Date and of which 2,750,850 will be sold pursuant to the Over-Allotment Option) to be admitted to the Official List and to the London Stock Exchange to admit such GDRs to trading on its market for listed securities, an active trading market for the GDRs may not develop or be sustained after the Offering. Such a case could adversely affect the liquidity and market price of the GDRs, and GDR holders might be unable to sell their GDRs readily.

Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDRs does not develop, the price of the GDRs may become more volatile, and it may be more difficult to complete a buy or sell order for such GDRs.

In addition to the Group's operating results, the trading prices of the GDRs may fluctuate in response to several extraneous factors, including:

➤ General economic conditions in emerging markets generally, in the CIS, Europe or in the Group's business sector;

➤ Price and volume fluctuations on Russian, other emerging market or European stock exchanges;

➤ National and industry growth rates;

➤ Changes in laws or regulations; and

➤ The operating results of other Russian or European businesses.

The market price of the GDRs may decline below the offering price, which will be determined by negotiation between the Company and the Managers.

The Company's ability to pay dividends and to service its debt obligations depends primarily upon receipt of sufficient funds from its subsidiaries
Because the Company is a holding company, its ability to pay dividends depends primarily upon receipt of sufficient funds from its subsidiaries, which in turn depends upon the earnings and cash flow of, and committed borrowings by, such subsidiaries. Furthermore, the payment of dividends by the Company's subsidiaries may, in certain circumstances, be subject to statutory restrictions in respect of retained earnings and other criteria. Similarly, the Group's ability to service its indebtedness also depends in many cases on the ability of the Company's subsidiaries to pay dividends. Furthermore, the Company's Russian subsidiaries generate most of their revenues in rubles, which the Company often must convert into U.S. dollars or other freely convertible currencies to pay dividends or service its indebtedness. The Company may be unable to convert such revenues at favorable exchange rates or at all.

Future sales of Shares or GDRs may affect the market price of the GDRs
Sales, or the possibility of sales, of material quantities of Shares or GDRs in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs. The Company's subsequent equity offerings may reduce the percentage ownership of its current shareholders. Moreover, the Company might issue preferred shares with rights, preferences or privileges senior to those of the Shares.

Dutch and U.K. public offer rules may not be applicable
Since the GDRs will be traded on the London Stock Exchange and because neither the GDRs nor the Shares are likely to be regularly traded in the Netherlands, Dutch public offer rules may not apply to any public offer for the GDRs or the Shares. In addition, since the Company is incorporated outside of England and Wales, the City Code on Takeovers and Mergers is inapplicable to it.

The Shares underlying the GDRs are not listed and may be illiquid
Unlike most GDR offerings traded on the London Stock Exchange, the underlying Shares are neither listed nor traded on any other stock exchange, and the Company does not intend to apply for the listing or admission to trading of the Shares on any other stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under ''Terms and Conditions of the GDRs,'' will result in that holder obtaining securities that are significantly less liquid than the GDRs, and the price of those Shares may be discounted as a result of such withdrawal. Furthermore, the deposit of such Shares back into the GDR facility will be restricted for a 180-day period and subject to a further certification period of 180 days thereafter, which will affect liquidity further.

OTHER RISKS

The Group has not independently verified information regarding its competitors, nor has the Group independently verified official data from Russian government agencies
The Group has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, including industry publications, press releases and filings under various securities laws, and the Group has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this Prospectus has been derived from official data of Russian government agencies. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and several of his subordinates were arrested and charged in connection with their misuse of economic data.

Important Information about this Prospectus

This Prospectus is issued in compliance with the listing rules of the FSMA and the Dutch Decree on the Supervision of the Securities Trade, which are compliant with the provisions of Directive 2003/71/EC (the **''Prospectus Directive''**). For the purpose of giving information with respect to the Group and the GDRs. The Company accepts responsibility for the information provided in this Prospectus. This Prospectus is based on information provided by the Company and other sources that the Company believes to be reliable. Having taken all reasonable care to ensure that such is the case, the Company declares, to the best of its knowledge, that:

- This Prospectus contains all information with respect to the Group that is material in the context of the Offering;

- The statements in this Prospectus in respect of each member of the Group are in every material respect in accordance with the facts and contain no omission likely to affect their import; and

- The opinions, expectations and intentions in this Prospectus with respect to each member of the Group are honestly held and based on reasonable assumptions in accordance with the facts and do not omit anything likely to affect their import.

The Company has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third-party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third-party source, to a certain degree subjective. While the Company believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by the Company appropriately reflects the Russian and European tire industry and the markets in which it operates, there is no assurance that the Company's own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The Company has derived certain information in this Prospectus, including certain estimates and approximations, from publicly available information, including industry publications, market research, press releases, filings under various securities laws and official data published by certain government and international agencies. The Company has relied on the accuracy of such information without carrying out an independent verification thereof. See ''Risk Factors–Other risks–The Group has not independently verified information regarding its competitors, nor has the Group independently verified official data from Russian government agencies.'' Accordingly, the Company accepts responsibility only for accurately reproducing such information and disclaims responsibility for the accuracy thereof. As far as the Company is aware, no facts have been omitted from such information that would render it inaccurate or misleading.

The Company has confirmed that any information incorporated by reference, including any such information to which readers of this Prospectus are expressly referred, has not been and does not need to be included in this Prospectus to satisfy the requirements of the Prospectus Directive, the FSMA or the Prospectus Rules and Listing Rules of the U.K. Listing Authority (the **''Listing Rules''**). The Company's management believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in this Prospectus. The contents of the Company's websites do not form any part of this Prospectus.

None of UBS Limited, Alfa Capital Holdings (Cyprus) Limited, acting through its London branch, Alfa Capital Markets (**''Alfa Capital Holdings''**), ING Bank N.V., London Branch or Nikitas Brokerage Limited (each, a **''Manager''** and collectively, the **''Managers''**) makes any representation or warranty, express or implied, as to the accuracy or completeness of information set forth in this Prospectus. None of the Managers assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the GDRs must make its own investigation and analysis of the creditworthiness of each of the Company and the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to such person in connection with such investment.

A copy of this Prospectus can be obtained at the offices of the Company's subsidiary, Vredestein Banden B.V. See ''General Information.'' The information set forth in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The Group's business and financial condition may have changed since that date.

In making an investment decision, prospective investors must rely on their own examination of the Company and the Group and the terms of this Prospectus, including the risks involved. No person is authorized to give any information or to make any representation in connection with Offering or the sale of the GDRs other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholders, the Depositary or any of the Managers.

No prospective investor should consider any information in this Prospectus to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. Neither the Company nor any of the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser. Each of the Managers is acting solely for the Company and the Selling Shareholders (as defined herein) and is not responsible for providing advice to any other person in respect of the Offering.

In connection with the Offering, UBS Limited and Alfa Capital Holdings (together, the **''Stabilizing Managers''**) or their agents may, for a limited period after the issue date, over-allot or effect transactions in the GDRs with a view to supporting the market price or the GDRs at a level that might have otherwise prevailed in the open market. However, there is no obligation on the part of the Stabilizing Managers or such agents to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the final price of the GDRs effected in the over-the-counter market or otherwise and may be discontinued at any time but in no event later than 30 days after the date of such adequate public disclosure of the final price of the GDRs (the **''Stabilization Period''**). Such stabilizing shall be in compliance with all applicable laws, regulations and rules.

If the Offering is made in any Implementing European Economic Area (**''EEA''**) Member State before the publication of a prospectus in respect of the GDRs and approval thereof by the competent authority in such member state in accordance with the Prospectus Directive (or, where applicable, the publication in such member state of such prospectus and notification thereof to such competent authority in accordance with the Prospectus Directive), the offer, including any offer pursuant to this Prospectus, is addressed only to qualified investors in that member state within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the Company to publish a prospectus pursuant to the Prospectus Directive. **''Implementing EEA Member State''** means an EEA member state that has implemented the Prospectus Directive.

The distribution of this Prospectus and the offer and sale of the Shares and the GDRs may be restricted by law in certain jurisdictions. None of the Company, the Selling Shareholders or the Managers are making an offer to sell any Shares or GDRs or are soliciting an offer to buy Shares or GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is unauthorized or is unlawful. The Company, the Selling Shareholders and the Managers each require persons into whose possession this Prospectus comes to inform themselves about and to observe such restrictions. None of the Company, the Selling Shareholders or the Managers have taken any action that would permit, other than as part of the Offering, an offering of or relating to the GDRs in any jurisdiction that requires action for that purpose. Further information with regard to restrictions on offers and sales of the GDRs is set forth under ''Subscription and Sale'' and ''Selling and Transfer Restrictions.''

Pursuant to the Deposit Agreement, the GDRs will be registered in the name of The Bank of New York Depository (Nominees) Limited and will be deposited with The Bank of New York, London branch, as common depositary for Euroclear and Clearstream Luxembourg. The Shares represented by the GDRs will be registered in the name of the Depositary or its nominee.

Notices to Certain Investors

NETHERLANDS

The GDRs are not, will not, and may not be, offered other than to persons established, domiciled or resident in the Netherlands who are professional parties within the meaning of Section 1a, subsection 3 of the Dutch Exemption Regulation to the Dutch Act on the Supervision of the Securities Trade 1995, (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*), as amended from time to time, which includes banks, certain securities intermediaries (including dealers and brokers), insurance companies, pension funds, and certain other institutional investors and commercial enterprises.

RUSSIA

The Shares and the GDRs have not been registered under the law of the Russian Federation ''On the Securities Market'' dated April 22, 1996, as amended (the **''Russian Securities Market Law''**), and are not being offered, sold or delivered directly in Russia or to any Russian resident. The Company is not a Russian issuer within the meaning of the Russian Securities Market Law, and the offering of its Shares and the GDRs outside Russia is not subject to prior listing in Russia.

UNITED KINGDOM

This Prospectus is only being distributed to and is only directed at:

➤ Persons who are outside the United Kingdom;

➤ Investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **''Order''**); and

➤ High net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order;

all such persons together being referred to as **''relevant persons.''** The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

UNITED STATES

The GDRs have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

SINGAPORE

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale of, or invitation for the subscription for or purchase of, GDRs may not be circulated or distributed, and GDRs may not be offered or sold or be made the subject of an invitation for subscription or purchase, in each case whether directly or indirectly, to persons in Singapore other than:

➤ To an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289, of Singapore (the **''SFA''**);

➤ To a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or

➤ Otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where GDRs are subscribed for or purchased under Section 275 by a relevant person that is:

➤ A corporation that is not an accredited investor, the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

➤ A trust where the trustee is not an accredited investor and whose sole purpose is to hold investments and each beneficiary of which is an accredited investor;

shares, debentures and units of shares and debentures of such corporation or the beneficiaries' rights and interest in such trust will not be transferable for six months after such corporation or trust has acquired the GDRs under Section 275, except:

➤ To an institutional investor or to a relevant person, or to any person pursuant to an offer by the terms of which such rights or interest are acquired for consideration of not less than S$200,000 (or its equivalent in foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;

➤ Where no consideration is given for the transfer; or

➤ By operation of law.

Forward-Looking Statements

This Prospectus contains ''forward-looking statements'' that relate to, among other things, the Group's plans, objectives, goals, strategies, future operations and performance, as well as assumptions in respect thereof. Such forward-looking statements are characterized by words such as ''anticipates,'' ''estimates,'' ''expects,'' ''believes,'' ''intends,'' ''plans,'' ''may,'' ''will,'' ''should'' and similar expressions but are not the sole means of identifying such statements. Such forward-looking statements appear in ''Summary,'' ''Risk Factors,'' ''Management Discussion and Analysis of Financial Condition and Results of Operations,'' ''Business'' and other sections of this Prospectus.

The Company bases such forward-looking statements on the views and projections of its management with respect to future events and financial performance. Although the Company believes that such views and projections are reasonable, if any of such views and projections prove to be incorrect or incomplete, the Group's actual results may differ materially from those expressed in such forward-looking statements and from past results. In addition, such forward-looking statements involve uncertainties and are subject to certain risks, including, but not limited to, the risks and uncertainties described in the ''Risk Factors,'' the occurrence of which could cause the Group's actual results to differ from those predicted in such forward-looking statements and from past results.

Except as otherwise required by applicable law or under the Listing Rules, the Company need not, and does not intend to, update or revise any forward-looking statements in this Prospectus, whether arising as a result of new information, future events or otherwise. The Company expressly qualifies in their entirety all subsequent forward-looking statements attributable to it, or to persons acting on its behalf, by the cautionary statements set forth throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the GDRs should not place undue reliance on these forward-looking statements.

Limitation on Enforcement of Civil Liabilities

The Company is a public limited liability company (*naamloze vennootschap*) incorporated under the laws of the Netherlands. Most of the members of its Supervisory or Executive Board are not residents of the United Kingdom. As a result, it may not be possible for holders of the GDRs to:

➤ Effect service of process within the United Kingdom upon any of the Company, all of the members of its Supervisory Board or the members of its Executive Board; or

➤ Enforce against any such persons judgments obtained in courts of the United Kingdom.

The courts of the Netherlands may not enforce a judgment rendered by a court in the United Kingdom without retrial.

The Company has appointed Law Debenture as its agent for service of process in any suit, action or proceeding with respect to the GDRs. However, a Russian or Dutch court may not respect such appointment.

In addition, it may be difficult for GDR holders to enforce, in actions brought in courts in jurisdictions outside the United Kingdom, judgments predicated upon United Kingdom securities laws.

Dutch courts will not recognize or enforce any judgment obtained in a court in a country other than a Member State of the European Union unless there is a treaty in effect between such country and the Netherlands providing for the recognition and enforcement of such a court judgment. Where a treaty in respect of such a court judgement is in effect or the Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters applies, recognition and enforcement of such a court judgment is subject to the rules of the relevant treaty or the Council Regulation and compliance with Dutch procedural laws and regulations.

Russian courts may not enforce any judgment obtained in a court in a country other than Russia unless:

➤ There is a treaty in effect between such country and the Russian Federation providing for the recognition and enforcement of court judgments; or

➤ Russia adopts a federal law providing for the recognition and enforcement of foreign court judgments. See ''Risk Factors–Other risks–The Group has not independently verified information regarding its competitions, nor has the Group independently verified official data from the Russian government agencies.''

No such treaty exists between the Russian Federation and the United Kingdom. Even if there were such a treaty, Russian courts may nonetheless refuse to recognize or enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date on which such recognition or enforcement is sought. Moreover, the Russian Federation has adopted no such federal law.

In September 2002, the Arbitrazh Procedural Code of the Russian Federation entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

The Deposit Agreement provides that actions brought by any party thereto be referred to arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. Each of the United Kingdom and Russia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **''New York Convention''**). Consequently, Russian courts should generally recognize and enforce in Russia, an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York

Convention and compliance with Russian procedural regulations and law). However, it may be difficult to enforce arbitral awards in Russia due to:

➤ The inexperience of Russian courts in international commercial transactions;

➤ Official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors;

➤ The Russian courts' inability to enforce such orders; and

➤ Corruption within the judiciary.

The Netherlands is a party to the New York Convention and pursuant thereto, Dutch courts should generally recognize and enforce in the Netherlands, an arbitral award from an arbitral tribunal in the United Kingdom, subject to the rules of the New York Convention and the Netherlands procedural regulations and applicable law.

Presentation of Financial and Other Information

PRESENTATION OF FINANCIAL INFORMATION

The Group has, unless otherwise indicated, derived the financial information set forth herein from:

➤ The Group's audited consolidated financial statements as of and for the years ended December 31, 2004 and 2003 (the **''Group Annual Financial Statements''**) and the Group's reviewed but unaudited consolidated financial information as of and for the six-month periods ended June 30, 2005 and 2004 (the **''Group Interim Financial Statements''** and, collectively with the Group Annual Financial Statements, the **''Group Financial Statements''**);

➤ The audited consolidated financial statements of Vredestein Banden B.V. and its consolidated subsidiaries (**''Vredestein''**) as of and for the years ended December 31, 2004 and 2003 (the **''Vredestein Annual Financial Statements''**) and Vredestein's reviewed but unaudited consolidated financial statements as of and for the six months ended June 30, 2005 (the **''Vredestein Interim Financial Statements''** and, collectively with the Vredestein Annual Financial Statements, the **''Vredestein Financial Statements,''** and the Vredestein Financial Statements together with the Group Financial Statements, the **''Financial Statements''**); and

➤ Unaudited pro forma consolidated financial information.

The Group Financial Statements have been prepared in accordance with IFRS, and related interpretations adopted by the International Accounting Standards Board (**''IASB''**). The Vredestein Financial Statements have been prepared in accordance with Dutch GAAP as determined pursuant to Title 9 of Book 2 of the Dutch Civil Code and Dutch Accounting Standards (*Richtlijnen voor de Jaarverslaggeving*).

Prospective investors should consult their own professional advisers for an understanding of the differences between IFRS and Dutch GAAP. See ''Summary of Certain Differences Between IFRS and Dutch GAAP.''

Companies acquired or disposed of during the year are included in the Financial Statements from the date of acquisition to the date of disposal. Intercompany balances and transactions, including intercompany profits and losses, are eliminated. The Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

EXPLANATION OF CERTAIN FINANCIAL, PRODUCTION AND SALES VOLUME INFORMATION

In this Prospectus, the term ''pro forma basis'' shall denote the following:

➤ Where the term ''pro forma basis'' is used in connection with financial information, such term denotes financial information derived from the unaudited pro forma consolidated financial information, which includes a pro forma consolidated balance sheet as of December 31, 2004 and pro forma consolidated statements of income for the year ended December 31, 2004 and for the six-month period ended June 30, 2005. This financial information was prepared to illustrate the financial position and the results of operations of the Company on the assumption that the transactions to acquire Vredestein (the **''Vredestein Acquisition''**) and dispose of CJSC JV Rosava (**''Rosava''**) had occurred on January 1, 2004 (the **''Rosava Disposition''**). See ''Management's Discussion and Analysis of Financial Condition and Results of Operations.'' The basis of preparation of the pro forma consolidated financial information is disclosed in note 1(b) to the pro forma consolidated financial information; and

➤ Where the term ''pro forma basis'' is used in connection with production or sales volume information, such term denotes production or sales volume information which includes units produced or sold by Vredestein, but excludes units produced or sold by Rosava. See ''Business.''

Information in this Prospectus about unit tire production and unit tire sales excludes production and sales of inner tubes for bicycle tires as the Company believes that this is a better reflection of the Group's unit production and unit sales. Information in this Prospectus that includes bicycle tire revenues also includes revenues from bicycle inner tubes.

CURRENCY AND EXCHANGE RATES

In this Prospectus, the following currency terms are used:

➤ **''EUR,'' ''euro''** or **''€''** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Economic Community, as amended;

➤ **''GBP,'' ''Great British pound''** or **''£''** means the lawful currency of the United Kingdom;

➤ **''RUB,'' ''Russian ruble''** or **''ruble''** means the lawful currency of the Russian Federation; and

➤ **''USD,'' ''U.S. dollar,'' ''dollar,'' ''U.S.$''** or **''$''** means the lawful currency of the United States.

Starting from January 1, 2003, the Russian economy ceased to be considered hyperinflationary, as defined under International Accounting Standard (**''IAS''**) 29 *Financial Reporting in Hyperinflationary Economies*.

The euro is Vredestein's functional currency and the currency in which the Vredestein Financial Statements are presented.

The following table shows, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of Russia (**''CBR''**). These rates may differ from the actual rates used in the preparation of the Group Financial Statements and other financial information appearing in this Prospectus.

	Rubles per U.S. dollar			
Year Ended December 31,	**High**	**Low**	**Average (for the Period)***	**Period End**
2000	28.87	26.90	28.13	28.16
2001	30.30	28.16	29.18	30.14
2002	31.86	30.14	31.35	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.82	27.75
2005 (through June 30, 2005)	28.68	27.46	27.96	28.67

(*) *The average of the exchange rate on the last business day of each full month for the relevant annual period, and on each business day for any other period.*

Source: CBR website at www.cbr.ru.

The exchange rate between the ruble and the U.S. dollar on November 11, 2005 was 28.81 rubles per USD 1.00.

No representation is made that the ruble or U.S. dollar amounts in this Prospectus could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all. The ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the ruble.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translation of some ruble amounts into U.S. dollars, at the rates set out below. No representation is made that ruble or dollar amounts referred to herein could have been converted into rubles or dollars, as the case may be, at these rates, at any particular rate or at all.

	As at or for the year ended December 31,		As at or for the six months ended June 30,	
	2003	2004	2004	2005
Average rates for income statement and EBITDA figures				
USD	30.69	28.82	28.78	27.96
EUR	34.67	35.82	35.35	36.04
Rates at period end for balance sheet figures				
USD	29.45	27.75	29.03	28.67
EUR	36.82	37.81	35.29	34.52

ROUNDING

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be a precise arithmetic aggregation of the figures that precede them.

Use of Proceeds

The Company estimates it will receive, after deduction of Managers' fees and commissions and other expenses, net proceeds of approximately USD 140,910,257 million from the Offering. The Company intends to use such net proceeds for the purpose of repaying a portion of its existing indebtedness. In particular, the Company intends to repay its higher interest, shorter term facilities. The Company will not receive any of the proceeds of the Offering represented by Shares of the Selling Shareholders, all of which will be paid to the Selling Shareholders.

Dividend Policy

The Company did not pay dividends during the years ended December 31, 2002, 2003 and 2004 and does not expect to declare or pay any dividends for the foreseeable future. Instead, it will reinvest all net profits into its business. The Group has entered into a number of transactions with its controlling shareholder. See ''Related Party Transactions — Transactions with controlling shareholder''.

The allocation of profits to the reserve accounts attached to the Shares and the distribution of all or any of the reserve accounts are subject to compliance with the Dutch Civil Code and the Articles. In principle only profits as shown in the adopted annual financial statements prepared using IFRS, may be allocated to the reserve accounts. Allocations to the reserve accounts and distributions out of the reserve accounts can only be made to the extent that its equity exceeds the aggregate amount of its paid and called-up part of the share capital and the reserves that must maintained under Dutch law or the Articles (such excess, if any, constituting ''freely distributable reserves''). If the Company does not have sufficient freely distributable reserves, it will limit its ability to allocate profits and make distributions out of the reserve accounts. The Company's general meeting of shareholders (the **''General Meeting''**), on proposal of the Company's Supervisory Board, may determine which part of the profits shall be added to the reserves and/or the reserve accounts attached to the Shares after adoption of the annual financial statements, demonstrating that these additions are permitted. The General Meeting, on proposal of the Supervisory Board, may also resolve in accordance with the provisions of Dutch law and the Articles that an interim addition shall be made to reserve accounts attached to the Shares, out of the profits made in a given financial year. The aforementioned proposals of the Company's Supervisory Board require a resolution adopted with a majority of 75% of the votes cast.

The General Meeting may resolve to distribute all or any part of the reserve accounts attached to the Shares. Resolutions for that purpose require the approval of the holders of the class of Shares, to which the reserve accounts are attached.

As a holding company, the Company's income and its ability to pay dividends depend primarily upon the receipt of dividends and distributions from its subsidiaries. The receipt of dividends from such subsidiaries is contingent upon sufficiency of the subsidiaries' earnings, cash flow and distributable profits.

The Company anticipates that any dividends it may pay in the future in respect of the Shares represented by the GDRs will be declared and paid to the Depositary in euros. The Depositary will convert such dividends into U.S. dollars and distribute them to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the euro and the U.S. dollar.

Capitalization

The following table sets forth the Group's consolidated capitalization as of June 30, 2005. It also sets forth such capitalization as adjusted to reflect the issuance of the GDRs as if the GDRs were issued on June 30, 2005, assuming an offer price of USD 11.00 per GDR. The exercise of the Over-Allotment Option would not alter the information set forth below, since the Over-Allotment Option was granted to the Managers by certain Selling Shareholders only. The following table should be read in conjunction with ''Selected Consolidated Historical Financial Data,'' ''Use of Proceeds,'' ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' ''Business'' and the Financial Statements and the accompanying notes thereto.

	As of June 30, 2005	
	Historical	**As Adjusted[(1)]**
	(RUB millions)	
Long-term borrowings, net of current portion	13,056	13,056
Equity		
Share capital[(2)]	19	24
Additional paid-in capital	8,291	12,346
Retained earnings	130	130
Minority interest	218	218
Foreign currency translation reserve	(140)	(140)
Total equity	8,518	12,578
Total capitalization[(3)]	21,574	25,634

(1) *Adjusted to give effect to the application of the net proceeds of the Offering, assuming an Offer Price of and full exercise of the Over-Allotment Option, but not adjusted for any other changes after June 30, 2005.*

(2) *Assuming exchange rates of EUR 1 = RUB 33.91 and USD 1 = RUB 28.81, in each case as of November 11, 2005.*

(3) *Total of long-term borrowings net of current portion and shareholders' equity.*

There has been no material adverse change in the Company's total capitalization since June 30, 2005.

Dilution

As of June 30, 2005, the Group's net tangible book value was approximately RUB 2,056 million. **''Net tangible book value''** is:

➤ The Group's total tangible assets; *minus*

➤ The sum of the Group's total liabilities and minority interest.

As of June 30, 2005, the Group's net tangible book value per Share was approximately RUB 38.37. **''Net tangible book value per Share''** is:

➤ The Group's net tangible book value; *divided by*

➤ The number of Shares outstanding.

''Dilution of net tangible book value per Share'' is:

➤ The amount paid per Share by purchasers of the GDRs in the Offering; *minus*

➤ The Group's net tangible book value per Share immediately after the issuance of the GDRs.

After giving effect to the issuance of the GDRs as if the GDRs were issued on June 30, 2005 and after deducting the underwriting fees and approximate offering expenses payable by the Company as of such date, the Group's net tangible book value as of June 30, 2005 would have been RUB 6,116 million, and its net tangible book value per Share would have been RUB 90.61. These calculations assume:

➤ An Offer Price of 11.00 per GDR; and

➤ An exchange rate of RUB 28.81 per USD, which was the official exchange rate quoted by the CBR on November 11, 2005.

These figures represent an immediate accretion in net tangible book value per share of RUB 52.24, or 136.2%, to existing investors and an immediate dilution in net tangible book value per share to investors purchasing GDRs in the Offering, assuming a ratio of one Share per GDR.

The following table summarizes such calculations:

	USD (unless otherwise indicated)
Offer Price per GDR	11.00
Net tangible book value per Share as of June 30, 2005	38.37
Increase in net tangible book value per Share attributable to the issuance of the GDRs as if the GDRs were issued on June 30, 2005	52.24
Net tangible book value per Share immediately after the issuance of the GDRs as if the GDRs were issued on June 30, 2005	90.61
Dilution per share to investors purchasing GDRs in the Offering	136.2%

Selected Consolidated Historical Financial Data

THE GROUP

The tables below show the Group's consolidated historical financial information as of and for the years ended December 31, 2003 and 2004 and as of and for the six months ended June 30, 2004 and 2005. This information has been extracted without material adjustment from the Group Financial Statements. The Group Interim Financial Statements include all normal and recurring adjustments that are, in the opinion of the Company, necessary for a fair presentation of its financial position at such dates and results of operations for such periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the Group Financial Statements.

The Group's financial statements have been prepared in accordance with IFRS since 2002 and have been audited by KPMG for the years ended December 31, 2003 and 2004. Although the Group's results are presented in Russian rubles, investors should not construe these converted amounts as a representation that such amounts could be converted from one currency to another at any particular rate or at all.

For the purposes of this selected Group consolidated historical financial information, convenience translations from the Russian ruble to the U.S. dollar are provided at the following exchange rates based on rates published by the CBR:

Group Financial Statement	Description	Rate: RUB/ 1 USD
Balance Sheet as of		
December 31, 2003	Spot rate at close of the business on December 31, 2003	29.45
December 31, 2004	Spot rate at close of the business on December 31, 2004	27.75
June 30, 2004	Spot rate at close of the business on June 30, 2004	29.03
June 30, 2005	Spot rate at close of the business on June 30, 2005	28.67
Statement of Income, Statement of Cash Flows and Other Measures for		
the year ended December 31, 2003	Average rate for 2003	30.69
the year ended December 31, 2004	Average rate for 2004	28.82
the six months ended June 30, 2004	Average rate for the six months ended June 30, 2004	28.78
the six months ended June 30, 2005	Average rate for the six months ended June 30, 2005	27.96

The convenience translations used for purposes of the Group's consolidated statement of income, statement of cash flows and other measures as of and for the six months ended June 30, 2004 and 2005 differ from those used in the Group Interim Financial Statements, which have been translated at an exchange rate of 28.6721 RUB to one USD, based on the CBR spot rate at the close of the business on June 30, 2005. See note 2(d) to the Group Interim Financial Statements.

SELECTED GROUP INCOME STATEMENT DATA

	Year ended December 31,				Six months ended June 30,			
	2003 (RUB million)	2003 (USD million)	2004 (RUB million)	2004 (USD million)	2004 (RUB million)	2004 (USD million)	2005 (RUB million)	2005 (USD million)
Revenue	11,281	367.6	13,850	480.6	6,382	221.8	7,990	285.8
Cost of sales excluding depreciation	(9,203)	(299.9)	(11,126)	(386.1)	(4,730)	(164.4)	(5,920)	(211.7)
Gross profit before depreciation	2,078	67.7	2,724	94.5	1,652	57.4	2,070	74
Depreciation charge related to cost of sales	(742)	(24.2)	(739)	(25.6)	(365)	(12.7)	(495)	(17.7)
Gross profit/(loss)	1,336	43.5	1,985	68.9	1,287	44.7	1,575	56.3
Other operating income	–	–	166	5.8	–	–	–	–
Distribution expenses	(303)	(9.9)	(450)	(15.6)	(219)	(7.6)	(455)	(16.3)
Administrative expenses	(530)	(17.3)	(972)	(33.7)	(420)	(14.6)	(598)	(21.4)
Taxes, other than on profit	(112)	(3.6)	(78)	(2.7)	(53)	(1.8)	(59)	(2.1)
Impairment losses and reversal of impairment losses, net	(1,026)	(33.4)	60	2.1	–	–	–	–
(Loss)/profit on disposal of property, plant and equipment	(64)	(2.1)	(42)	(1.5)	(55)	(1.9)	12	0.4
Gains and losses related to acquisitions, restructuring and disposal of subsidiaries	1,042	34	63	2.2	7	0.2	152	5.4
Other operating expenses	(284)	(9.3)	(125)	(4.3)	(191)	(6.6)	(129)	(4.6)
Operating profit	59	1.9	607	21.1	356	12.4	498	17.8
Net financing expenses	(283)	(9.2)	(631)	(21.9)	(251)	(8.7)	(402)	(14.4)
(Loss)/profit from investment in joint venture	20	0.7	(11)	(0.4)	–	–	–	–
Profit/(loss) before tax	(204)	(6.6)	(35)	(1.2)	105	3.6	96	3.4
Income tax (expense)/benefit	192	6.3	2	0.1	(79)	(2.7)	(71)	(2.5)
Profit/(loss) after tax	(12)	(0.4)	(33)	(1.1)	26	0.9	25	0.9
Minority interest	268	8.7	162	5.6	65	2.3	1	0
Net profit/(loss)	256	8.3	129	4.5	91	3.2	26	0.9
Earnings per share–basic and diluted	61	2	30	1	2.20	0.1	0.6	–

SELECTED GROUP BALANCE SHEET DATA

	As of December 31,				As of June 30,			
	2003 (RUB million)	2003 (USD million)	2004 (RUB million)	2004 (USD million)	2004 (RUB million)	2004 (USD million)	2005 (RUB million)	2005 (USD million)
Non-current assets	9,962	338.3	10,451	376.6	10,364	357	18,662	650.9
Current assets	4,338	147.3	4,324	155.8	6,255	215.5	14,054	490.2
Total assets	14,300	485.6	14,775	532.4	16,619	572.5	32,716	1,141.1
Total equity	5,877	199.6	6,279	226.3	5,915	203.8	8,300	289.5
Minority interest	1,562	53	302	10.9	1,566	53.9	218	7.6
Non-current liabilities	3,501	118.9	3,596	129.6	4,150	143	15,641	545.6
Current liabilities	3,360	114.1	4,598	165.7	4,988	171.8	8,557	298.5
Total equity, minority interest and liabilities	14,300	485.6	14,775	532.4	16,619	572.5	32,716	1,141.1

SELECTED GROUP CASH FLOW STATEMENT DATA

	Year ended December 31,				Six months ended June 30,			
	2003 (RUB million)	2003 (USD million)	2004 (RUB million)	2004 (USD million)	2004 (RUB million)	2004 (USD million)	2005 (RUB million)	2005 (USD million)
Net cash flows from operating activities . . .	(290)	(9.4)	353	12.2	(84)	(2.9)	(1,814)	(64.9)
Net cash flows in investing activities	(1,670)	(54.4)	(1,707)	(59.2)	(991)	(34.4)	(7,953)	(284.4)
Net cash flows from (used in) financing activities	1,983	64.6	1,233	42.8	814	28.3	12,916	461.9

OTHER MEASURES

	Year ended December 31,				Six months ended June 30,			
	2003 (RUB million)	2003 (USD million)	2004 (RUB million)	2004 (USD million)	2004 (RUB million)	2004 (USD million)	2005 (RUB million)	2005 (USD million)
Consolidated EBITDA(*)	1,175	38.3	1,572	54.5	884	30.7	1,176	42.1

(*) *EBITDA is net profit for the year plus depreciation and amortization expense, taxes other than on profits, income tax expense or benefit, interest income and interest expense. See note 32 to the Group Annual Financial Statements and note 24 to the Group Interim Financial Statements. EBITDA is not a measure of financial performance under IFRS, and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The Company's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.*

VREDESTEIN

The table below shows Vredestein's historical consolidated financial information as of and for the years ended December 31, 2003 and 2004 and as of and for the six months ended June 30, 2005. No comparative information for the six months ended June 30, 2004 is available. This information has been extracted without material adjustment from the Vredestein Financial Statements. The results of operations for the interim period are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the Financial Statements.

Vredestein's financial statements have been prepared in accordance with Dutch GAAP and have been audited by KPMG for the years ended December 31, 2003 and 2004.

For the purposes of this selected Vredestein historical consolidated financial information, convenience translations from the euro to the U.S. dollar are provided at the following exchange rates:

Vredestein Financial Statement	Description	Rate: USD/ 1 EUR
Balance Sheet as of		
December 31, 2003	Spot rate at close of the business on December 31, 2003	1.25
December 31, 2004	Spot rate at close of the business on December 31, 2004	1.36
June 30, 2005	Spot rate at close of the business on June 30, 2005	1.20
Statement of Income and Statement of Cash Flow for		
the year ended December 31, 2003	Average rate for 2003	1.13
the year ended December 31, 2004	Average rate for 2004	1.24
the six months ended June 30, 2005	Average rate for the six months ended June 30, 2005	1.29

SELECTED VREDESTEIN INCOME STATEMENT DATA

	Year ended December 31,				Six months ended June 30,	
	2003 (EUR million)	2003 (USD million)	2004 (EUR million)	2004 (USD million)	2005 (EUR million)	2005 (USD million)
Net sales	216.5	244.6	230.8	286.2	105.2	135.7
Cost of Sales	163.2	184.4	168.2	208.6	73.3	94.6
Gross profit	53.3	60.2	62.6	77.6	31.9	41.2
Selling costs	29.0	32.8	29.3	36.3	16.2	20.9
General Management Costs	11.0	12.4	10.3	12.8	8.3	10.7
Total Costs	40.0	45.2	39.6	49.1	24.5	31.6
Net Profit	13.3	15.0	23.0	28.5	7.4	9.5
Other operating revenues	1.3	1.5	0.9	1.1	0.0	0.0
Operating result	14.6	16.5	23.9	29.6	7.4	9.5
Interest charges and similar costs	(2.4)	(2.7)	(1.4)	(1.7)	(0.6)	(0.7)
Operating result before taxes	12.2	13.8	22.5	27.9	6.8	8.8
Taxes	(0.3)	(0.3)	(7.8)	(9.7)	(1.9)	(2.5)
Income from participating interests	0.0	0.0	(0.1)	0.0	0.0	0.0
NET RESULT	11.9	13.4	14.6	18.1	4.9	6.3

SELECTED VREDESTEIN BALANCE SHEET DATA

	As of December 31,				As of June 30,	
	2003 (EUR million)	2003 (USD million)	2004 (EUR million)	2004 (USD million)	2005 (EUR million)	2005 (USD million)
Fixed assets	47.2	59.0	50.6	68.8	57.0	68.4
Current assets	93.2	116.5	90.8	123.5	111.3	133.6
Total assets	140.4	175.5	141.4	192.3	168.3	202
Shareholders' equity	75.7	94.6	80.3	109.2	56.3	67.6
Provisions	3.4	4.3	3.9	5.3	23.9	28.7
Long-term debt	13.9	17.4	6.5	8.8	2.0	2.4
Short-term debt	47.4	59.3	50.7	69.0	86.1	103.3
Total equity, provisions and liabilities	140.4	175.5	141.4	192.3	168.3	202

SELECTED VREDESTEIN CASH FLOW STATEMENT DATA

	Year ended December 31,				Six months ended June 30,	
	2003 (EUR Million)	2003 (USD Million)	2004 (EUR Million)	2004 (USD Million)	2005 (EUR million)	2005 (USD million)
Cash flow from operations	20.3	22.9	46.1	57.2	35.8	46.2
Cash flow from capital expenditure	(8.4)	(9.5)	(15.0)	(18.6)	(5.9)	(7.6)
Cash flow from financing activities	0.1	0.1	(17.4)	(21.6)	(33.4)	(43.1)
Change in cash position	12.0	13.6	13.7	17.0	(3.5)	(4.5)

Unaudited Pro Forma Consolidated Financial Information

The Company has derived the following unaudited pro forma consolidated financial information from the Financial Statements by adjusting the Group Financial Statements to give effect to the Vredestein Acquisition and the Rosava Disposition as though they had occurred on January 1, 2004 and as if they had been prepared in accordance with IFRS.

The accompanying unaudited pro forma consolidated balance sheet information as of December 31, 2004 gives effect to the Vredestein Acquisition and the Rosava Disposition as if they had occurred on January 1, 2004. Adjustments to the Financial Statements that reflect the Vredestein Acquisition are described in the notes to the unaudited pro forma consolidated financial information.

The unaudited pro forma consolidated financial information has been presented for illustrative purposes only and does not purport to:

- Represent what the Group's results of operations or financial condition would have actually been had the Vredestein Acquisition and the Rosava Disposition in fact occurred as of January 1, 2004; or

- Predict the results of the Group's operations for any future period or its financial condition for any future date.

The unaudited pro forma consolidated financial information should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the Financial Statements included elsewhere in this Prospectus.

UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT DATA

	Six months ended June 30, 2005								
		Vredestein			Amtel		Pro forma adjustments		Pro forma consolidated
	Dutch GAAP (EUR million) (1)	IFRS Adjustments (EUR million) (2)	IFRS (EUR million) (3) = (1) + (2)	IFRS (RUB million) (4) = (3) x 35.82	IFRS (RUB million) (5)	Adjustment (B) (RUB million) (6)	(RUB million) (7)	Ref.	(RUB million) (8) = (4) + (5) + (6) + (7)
Sales	105.2	–	105.2	3,791	7,990	(1,322)	–		10,459
Cost of sales	(67.6)	0.9	(66.7)	(2,404)	(5,920)	836	–		(7,488)
	37.6	0.9	38.5	1,387	2,070	(486)	–		2,971
Depreciation charge related to cost of sales	(5.7)	(4.1)	(9.8)	(353)	(495)	120	–		(728)
	31.9	(3.2)	28.7	1,034	1,575	(366)	–		2,243
Other operating income	–	–	–	–	–	–	–		–
Selling expenses	(16.2)	0.3	(15.9)	(573)	(455)	226	–		(802)
Administration expenses	(8.3)	1.8	(6.5)	(234)	(598)	102	–		(730)
Taxes, other than on profit	–	–	–	–	(59)	–	–		(59)
Impairment losses and reversal of impairment losses, net	–	–	–	–	–	–	–		–
Gain on disposal of property, plant and equipment	–	–	–	–	12	–	–		12
Gains and losses related to acquisitions, restructuring and disposals of subsidiaries	–	–	–	–	152	–	–		152
Other operating expenses	–	(0.2)	(0.2)	(7)	(129)	7	–		(129)
	7.4	(1.3)	6.1	220	498	(31)	–		687
Financing costs	(0.6)	(0.4)	(1.0)	(36)	(402)	30	(97)	**(D)**	(505)
	6.8	(1.7)	5.1	184	96	(1)	(97)		182
Income taxes	(1.9)	0.3	(1.6)	(58)	(71)	–	31	**(E)**	(98)
Profit after tax	4.9	(1.4)	3.5	126	25	(1)	(66)		84
Gains/(losses) attributable to:									
The shareholders of the parent company	4.9	(1.4)	3.5	126	26	(1)	(66)		85
The minority shareholders	–	–	–	–	(1)	–	–		(1)
	4.9	(1.4)	3.5	126	25	(1)	(66)		84

	Year ended December 31, 2004								
	Vredestein				Amtel		Pro forma adjustments		Pro forma consolidated
	Dutch GAAP (EUR million) (1)	IFRS Adjustments (EUR million) (2)	IFRS (EUR million) (3) = (1) + (2)	IFRS (RUB million) (4) = (3) x 35.82	IFRS (RUB million) (5)	Rosava Adjustment (A) (RUB million) (6)	(RUB million) (7)	Ref.	(RUB million) (8) = (4) + (5) + (6) + (7)
Sales	230.8	(9.9)	220.9	7,912	13,850	(3,325)	–		18,437
Cost of sales	(156.7)	10.0	(146.7)	(5,254)	(11,126)	2,991	–		(13,389)
	74.1	0.1	74.2	2,658	2,724	(334)	–		5,048
Depreciation charge related to cost of sales	(11.5)	(7.7)	(19.2)	(688)	(739)	143	–		(1,284)
	62.6	(7.6)	55.0	1,970	1,985	(191)	–		3,764
Other operating income	0.8	0.5	1.3	47	166	(166)	–		47
Selling expenses	(29.3)	0.2	(29.1)	(1,042)	(450)	138	–		(1,354)
Administration expenses	(10.3)	4.7	(5.6)	(201)	(972)	78	–		(1,095)
Taxes, other than on profit	–	–	–	–	(78)	6	–		(72)
Impairment losses and reversal of impairment losses, net	–	–	–	–	60	–	–		60
Gain/loss on disposal of property, plant and equipment	–	–	–	–	(42)	1	–		(41)
Gains and losses related to acquisitions, restructuring and disposals of subsidiaries	–	–	–	–	63	–	–		63
Other operating expenses	–	–	–	–	(125)	25	–		(100)
	23.8	(2.2)	21.6	774	607	(109)	–		1,272
Financing costs	(1.4)	(0.3)	(1.7)	(61)	(631)	93	(286)	**(D)**	(885)
Loss from investments in associates and joint ventures	–	–	–	–	(11)	–	–		(11)
	22.4	(2.5)	19.9	713	(35)	(16)	(286)		376
Income taxes	(7.8)	3.4	(4.4)	(158)	2	(31)	99	**(E)**	(88)
Profit after tax	14.6	0.9	15.5	555	(33)	(47)	(187)		288
Gains/(losses) attributable to:									
The shareholders of the parent company	14.6	0.9	15.5	555	129	(166)	(187)		331
The minority shareholders	–	–	–	–	(162)	119	–		(43)
	14.6	0.9	15.5	555	(33)	(47)	(187)		288

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET DATA

	As of December 31, 2004							
	Vredestein							
	Dutch GAAP (EUR million) (1)	IFRS Adjustments (EUR million) (2)	IFRS (EUR million) (3) = (1) + (2)	IFRS (RUB million) (4) = (3) x 37.81	Amtel (RUB million) (5)	Pro forma adjustments (RUB million) (6)	Ref.	Pro forma consolidated (RUB million) (7) = (4) + (5) + (6)
Non-current assets								
Property, plant and equipment	50.5	70.4	120.9	4,571	7,750	–		12,321
Intangible assets	–	27.4	27.4	1,036	2,403	2,437	**(C)**	5,876
Long-term financial assets	0.1	–	0.1	4	230	–		234
Long-term receivables and other assets	–	3.8	3.8	144	–	–		144
Deferred tax asset	–	1.4	1.4	53	68	–		121
	50.6	103.0	153.6	5,808	10,451	2,437		18,696
Current assets								
Inventories	32.8	0.2	33.0	1,248	1,909	–		3,157
Trade and other receivable	52.0	2.7	54.7	2,068	2,124	–		4,192
Short-term financial assets	–	–	–	–	96	–		96
Cash and cash equivalents	6.0	2.8	8.8	333	195	–		528
	90.8	5.7	96.5	3,649	4,324	–		7,973
Total assets	141.4	108.7	250.1	9,457	14,775	2,437		26,669
Non-current liabilities								
Long-term payables and accruals	3.4	7.7	11.1	420	–	–		420
Finance lease liabilities	–	–	–	–	822	–		822
Deferred tax liability	0.5	29.4	29.9	1,131	755	(99)	**(E)**	1,787
Long-term loans and borrowings	6.5	–	6.5	246	2,019	5,647	**(D)**	7,912
	10.4	37.1	47.5	1,797	3,596	5,548		10,941
Current liabilities								
Short-term loans and borrowings	5.8	2.8	8.6	325	2,813	–		3,138
Trade and other payables	44.9	8.2	53.1	2,009	1,785	–		3,794
	50.7	11.0	61.7	2,334	4,598	–		6,932
Equity	80.3	60.6	140.9	5,326	6,279	(3,111)		8,494
Attributable to minority interests	–	–	–	–	302	–		302
Total liabilities and equity	141.4	108.7	250.1	9,457	14,775	2,437		26,669

OTHER MEASURES

	Year ended December 31,		Six months ended June 30	
	2004 (RUB million)	2004 (EUR million)	2005 (RUB million)	2005 (EUR million)
Consolidated EBITDA(*)	2,675	74.7	1,598	44.3

(*) *EBITDA is net profit for the year plus depreciation and amortization expense, taxes other than on profits, income tax expense or benefit, interest income and interest expense. See note 4 to the unaudited pro forma consolidated financial information. EBITDA is not a measure of financial performance under IFRS, and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The Company's calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.*

EXPLANATORY NOTES

The Vredestein Acquisition

Amtel-Vredestein N.V. is a public limited liability company incorporated under the laws the Netherlands. Amtel-Vredestein N.V. is the parent company for the Amtel Group.

On April 25, 2005, Amtel completed the Vredestein Acquisition in a transaction accounted for as a business combination.

As consideration for the acquisition, Amtel exchanged EUR 195.6 million in cash for all of the outstanding shares in Vredestein. Amtel also incurred transaction costs of EUR 4.3 million.

The total cost of the business combination of approximately EUR 199.9 million has been allocated to the tangible and identifiable intangible assets acquired and liabilities and contingent liabilities assumed, on the basis of their estimated fair values on the acquisition date. Amtel accounted for the business combination in its interim consolidated condensed financial information as of and for the six-month period ended June 30, 2005 on a provisional basis.

This unaudited pro forma consolidated financial information gives effect to the acquisition by Amtel of Vredestein. The unaudited pro forma consolidated statements of income combine the results of operations of Amtel and Vredestein for the year ended December 31, 2004 and the six-month period ended June 30, 2005, as if the acquisition had occurred on January 1, 2004.

The pro forma adjustments are based on available information and certain assumptions and may be revised as additional information becomes available. The unaudited pro forma consolidated financial information is not intended to represent what Amtel's financial position or results of operations would actually have been if the acquisition had occurred on that date or to project Amtel's financial position or results of operations for any future period. Since Amtel and Vredestein were not under common control or management prior to April 25, 2005, the unaudited pro forma consolidated financial results may not be comparable to, or indicative of, future performance. This unaudited pro forma consolidated financial information should be read in conjunction with the Financial Statements.

Basis of preparation

This unaudited pro forma consolidated financial information has been prepared in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation (Commission Regulation (EC) No 809/2004 of April 29, 2004).

Accounting principles of the underlying historical financial information

Amtel prepares its financial statements in accordance with IFRS and related interpretations adopted by the International Accounting Standards Board (**''IASB''**).

Vredestein prepares its financial statements in accordance with Dutch GAAP. For the purposes of this unaudited pro forma consolidated financial information, the financial statements of Vredestein were adjusted for differences between Dutch GAAP and the accounting policies applied by Amtel in preparing its consolidated financial statements in accordance with IFRS. For differences between IFRS and Dutch GAAP see ''Summary of Certain Differences between IFRS and Dutch GAAP.''

Sources of information

The pro forma consolidated balance sheet as of December 31, 2004 and pro forma consolidated statement of income for the year then ended have been prepared on the basis of the audited consolidated financial statements of Amtel prepared in accordance with IFRS as of and for the year ended December 31, 2004, and the audited consolidated financial statements of Vredestein as of and for the year ended December 31, 2004, prepared in accordance with Dutch GAAP.

The pro forma consolidated statement of income for the six-month period ended June 30, 2005 has been prepared on the basis of the unaudited interim consolidated condensed financial information for the six-month period ended June 30, 2005 of Amtel, prepared in accordance with IAS 34 *Interim Financial Reporting*, and the unaudited interim consolidated condensed financial information for the six-month period ended June 30, 2005 of Vredestein, prepared in accordance with Dutch GAAP.

UNDERLYING ASSUMPTIONS

The following assumptions have been made in preparing this unaudited pro forma consolidated financial information:

The acquisition date
The Vredestein Acquisition was completed on January 1, 2004.

The cost of the business combination
The cost that would have been incurred for the shares of Vredestein and the transaction costs directly attributable to the business combination had the acquisition taken place on January 1, 2004 would have been equal to the actual consideration and transaction costs paid in April 2005 and amounted to EUR 195.6 million and EUR 4.3 million, respectively.

Fair values
The estimated fair values of tangible assets, identifiable intangible assets, liabilities and contingent liabilities of Vredestein on January 1, 2004 were the same as their fair values on April 25, 2005, as adjusted for the amount of recognized gains and losses and other changes in shareholders' equity of Vredestein from January 1, 2004 to April 25, 2005.

The financing of the Vredestein Acquisition
The Vredestein Acquisition was financed with the following bank loans:

➤ EUR 118 million, pursuant to the Syndicated Loan from ING Bank and ABN Amro Bank with an effective interest rate of approximately 4.88% per annum linked to Euribor;

➤ EUR 82 million, pursuant to a long-term loan from Amsterdam Trade Bank N.V. (**''Amsterdam Trade Bank''**) with fixed interest of 9.95% per annum.

In June 2005, Amtel issued USD-denominated CLNs for approximately RUB 4,937 million (USD 175 million/EUR 143 million) with an average effective interest rate of 9.25% per annum. In addition, Amtel issued ordinary shares representing approximately 12% of the share capital for RUB 2,003 million (USD 70 million/EUR 58 million) to Alfa Capital Holdings and Aranda Investments Pte. Ltd (**''Aranda''**). The proceeds from these transactions were partially used to repay the loan from Amsterdam Trade Bank referred to above.

Thus, if Amtel had acquired Vredestein on January 1, 2004, the transaction would have been financed with the following funding obtained on January 1, 2004:

➤ EUR 118 million of Syndicated Loans with an average interest rate of 4.88% per annum (linked to EURIBOR);

➤ EUR 58.1 million of proceeds from the private placement of shares with Alfa Capital Holdings and Aranda, an affiliate of Temasek Holdings (Private) Limited Pte;

➤ EUR 23.8 million of proceeds from CLNs with an average interest rate of 9.25% per annum.

This unaudited pro forma consolidated financial information also assumes no cash settlements of interest and principal amounts of the loans from January 1, 2004 to April 25, 2005.

Functional and presentation currency
The Company's functional currency and the currency in which the historical consolidated financial statements of the Company are presented is the Russian ruble.

The functional currency in which the historical financial statements of Vredestein are prepared is the euro.

For the purposes of this pro forma consolidated financial information the financial statements of Vredestein were translated to RUB at the following exchange rates published by the CBR:

Pro forma statement	Description	Rate: RUB/1 EUR
Assets and liabilities as of December 31, 2004	Spot rate at close of the business on December 31, 2004	37.81
Statement of income and other measures for the year ended December 31, 2004	Average rate for 2004	35.82
Statement of income and other measures for the six-month period ended June 30, 2005	Average rate for the six-month period ended June 30, 2005	36.04

The resulting exchange differences for the year ended December 31, 2004 and for the six-month period ended June 30, 2005 were not recorded in the statement of income because they would have represented the foreign exchange differences arising from a net investment in foreign operations and would have been recognized as part of equity.

PRO FORMA ADJUSTMENTS

The following adjustments have been reflected in the unaudited pro forma consolidated financial information. These adjustments are expected to have a continuing impact on the Company.

Adjustment (A)
The adjustment represents elimination of the results of operations of Rosava from the consolidated statement of income of the Company for the year ended December 31, 2004. The Group lost control over Rosava on December 31, 2004 and it was excluded from the scope of the consolidated financial statements from that date. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

Adjustment (B)
The adjustment represents elimination of the results of operations of Vredestein for the period from April 25, 2005 to June 30, 2005. These results are included in the consolidated financial statements of the Company for the six-month period ended June 30, 2005.

Adjustment (C)
The adjustment corresponds to the pro forma goodwill on the investment in Vredestein assuming that the acquisition was made on January 1, 2004. The acquisition of Vredestein is assumed to involve pro forma goodwill on consolidation as shown below:

	EUR million
Pro forma cost of business combination	195.6
Transaction costs directly attributable to the business combination	4.3
Pro forma fair value of the net identifiable assets acquired	(135.4)
The excess of the consideration paid over the fair value of the net identifiable assets, liabilities and contingent liabilities (pro forma goodwill)	64.5
Translated to RUB at foreign exchange rate as of December 31, 2004 – in million RUB	2,437

The pro forma goodwill of EUR 64.5 million differs from the actual goodwill on the Vredestein Acquisition amounting to EUR 83.9 million by the amount of recognized gains and losses and other changes in shareholders' equity of Vredestein from January 1, 2004 to April 25, 2005 – refer to notes 2(b) and 2(c) to the unaudited pro forma consolidated financial information for assumptions applied to the cost of the business combination and the fair values of the net identifiable assets.

Adjustment (D)
Interest that would have been payable for the year 2004 and for the six-month period ended June 30, 2005 based on an assumed interest rate of 4.88% for the loans from ING Bank and 9.25% for the CLNs.

Adjustment (E)

The tax effect of interest recorded as adjustment (D) from the loans from Amsterdam Trade Bank and ING Bank based on a Dutch corporate tax rate of 34.5% in 2004 and 31.5% for 2005.

PRO FORMA EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION

	Year ended 31 December, 2004 RUB million	Six months ended 30 June, 2005 RUB million
Profit attributable to equity holders of the Parent	331	85
Adjustments for:		
Interest expense and income, net	891	618
Income tax expense	88	98
Taxes other than profit	72	59
Depreciation and amortization expense	1,293	738
	2,675	1,598

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the Group's financial condition and results of operations as of and for the years ended December 31, 2003 and 2004 and as of and for the six months ended June 30, 2004 and 2005, and of the material factors that the Group believes are likely to affect its financial condition and results of operations. Also included is a discussion of Vredestein's financial condition and results of operations as of and for the years ended December 31, 2003 and 2004. This section should be read together with the Financial Statements and the notes thereto included elsewhere in this Prospectus.

The Group Financial Statements have been prepared in accordance with IFRS, which differ in certain significant respects from Dutch GAAP. The Vredestein Annual Financial Statements have been prepared in accordance with Dutch GAAP. For a discussion of certain differences between IFRS and Dutch GAAP as they relate to the Financial Statements contained in this Prospectus, see ''Summary of Certain Differences between IFRS and Dutch GAAP.''

The following discussion and analysis includes forward-looking statements that are subject to numerous risks, uncertainties and other factors. See ''Important Information about this Prospectus–Forward-Looking Statements'' and ''Risk Factors'' for a discussion of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

OVERVIEW

The Group is an international producer and supplier of tires for passenger cars, light trucks, heavy trucks, agricultural vehicles, aircraft and bicycles. According to ASM Holding, a consultancy that analyzes the CIS automotive industry, the Group is one of the three largest tire manufacturers in the CIS. The Group is also a significant producer of tire industry-related raw materials, such as carbon black and polyamide-6 products. The Group operates integrated manufacturing facilities in Russia and the Netherlands, as well as a sales network in the CIS, Europe, North America and Asia.

The Group has experienced significant growth in recent years. The Group launched its tire business in 1997 and by 2004 had aggregate sales of approximately 21.8 million tires, on a pro forma basis. See ''Business–The Group–Evolution of the Group's tire business.'' In 2004, the Group had a 13.5% share of the overall Russian tire market and a 13.4% share of the Russian passenger car tire market, in each case in terms of unit sales on a pro forma basis. In April 2005, the Group expanded its operations outside the CIS by acquiring Vredestein, a Dutch premium tire company. The Group estimates that Vredestein sold 4.6 million passenger car and light truck tires in 2004, giving it, in terms of unit sales, a 1.9% share of the overall European passenger car and light truck tire market and a 3% share of the German passenger car and light truck tire market, Vredestein's most significant market in Europe. According to 2003 worldwide revenue data published by the *European Rubber Journal,* the combination of the two businesses made the Group the twelfth largest global tire manufacturer.

The Group focuses on the passenger car tire market, for which it produces A-, B- and C-segment tires. On a pro forma basis, sales of B-segment tires accounted for 10.7% and 20.7% of the Group's revenues in 2004 and the first six months of 2005, respectively. On a pro forma basis, Vredestein sold 18.2% and 9.8%, respectively, of the Group's B-segment tires in unit terms. On a pro forma basis, sales of A-segment tires accounted for 29.2% and 22.4% of the Group's revenues in 2004 and the first six months of 2005, respectively. Vredestein sold all of these tires. On a pro forma basis, sales of C-segment tires accounted for 9.4% and 9.2% of the Group's revenues in 2004 and the first six months of 2005, respectively. All of these C-segment tires were sold by members of the Group other than Vredestein.

The Group believes that the Vredestein Acquisition will help it penetrate the high-margin, growing Russian A-segment market, currently served exclusively by imports, and the growing Russian B-segment market, by giving it access to superior tire technology and sophisticated marketing practices. In the case of the A-segment market, the acquisition also gives the Group access to the well-regarded VREDESTEIN™ brand for use in the Russian market.

In the CIS, the Group sells tires in both the RE market, in which its principal customers are wholesale distributors, and in the OE market, in which its principal customers are automobile manufacturers in Russia. In

Europe, the Group sells principally to the RE market, in which its principal customers are retail tire and fast-fit shops and, in the case of its SPACEMASTER™ brand spare tires, to premium vehicle manufacturers. On a pro forma basis, RE revenues accounted for approximately 84% of the Group's tire revenues in 2004 and approximately 82% in the first six months of 2005. On a pro forma basis, OE sales accounted for approximately 16% of the Group's tire revenues in 2004 and 18% in the first six months of 2005.

AVAILABLE FINANCIAL INFORMATION AND BASIS OF PRESENTATION

Available information
Included in this Prospectus are the following historical financial statements:

- The Company's audited consolidated balance sheet as of December 31, 2002, prepared in accordance with IFRS. See ''–2002 Financial Information.''

- The Company's audited consolidated income statements, balance sheets, cash flow statements, statements of changes in equity and related notes as of and for the periods ended December 31, 2003 and 2004, prepared in accordance with IFRS.

- The Company's interim consolidated condensed income statements, balance sheets, cash flow statements, statements of changes in equity and related notes as of and for the periods ended June 30, 2004 and 2005, prepared in accordance with IFRS. These financial statements reflect the Group's acquisition of Vredestein as of April 25, 2005 and accordingly include the results of operations of Vredestein for the corresponding portion of the period ended June 30, 2005. These financial statements are for Vredestein and its consolidated subsidiaries only and do not reflect the Group's acquisition of Vredestein.

- Vredestein's audited consolidated income statements, balance sheets, cash flow statements and related notes as of and for the periods ended December 31, 2003 and 2004, prepared in accordance with Dutch GAAP. These financial statements are for Vredestein and its consolidated subsidiaries only and do not reflect the Group's acquisition of Vredestein.

- Vredestein's interim consolidated condensed income statement and balance sheet as of and for the six-month period ended June 30, 2005, prepared in accordance with Dutch GAAP.

Also included in this Prospectus is unaudited pro forma consolidated financial information prepared to give effect to the Rosava Disposition and the Vredestein Acquisition as if both such transactions had occurred as of January 1, 2004, and prepared in accordance with IFRS. See ''Unaudited Pro Forma Consolidated Financial Information.''

2002 financial information
The Company was incorporated as Amtel Holdings Holland B.V., a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*), on July 30, 2002, and was converted into a public limited liability company (*naamloze vennootschap*) on September 2, 2004. On October 4, 2005 the Company changed its name to Amtel-Vredestein N.V. Since December 31, 2002, the Company has been the holding company for the Group. The Company's 2002 financial statements do not include audited consolidated income, cash flow and changes in shareholders' equity statements for the year ended December 31, 2002. In respect of 2002, this Prospectus includes only: (1) the Company's unaudited standalone balance sheet as of December 31, 2002 and information on shareholders' equity as at December 31, 2002 (along with the accompanying notes), prepared in accordance with Dutch GAAP, as filed with the Trade Register of the Chamber of Commerce and Industries for Amsterdam (the **''Trade Register''**), and (2) the Company's audited consolidated balance sheet as of December 31, 2002, prepared in accordance with IFRS. See ''General Information–2002 financial information.''

Rosava Disposition
During the year ended December 31, 2003, the Company owned, directly or indirectly, a 51% interest in Rosava. For that period, the Company fully consolidated Rosava's assets, liabilities and results of operations while simultaneously deducting a 49% minority interest to reflect the minority interest held by third parties.

In December 2003, the Company entered into an agreement with companies affiliated with UkrSibBank Financial Group (**''UkrSibBank''**) to sell its 51% interest in Rosava, the Company's entire direct and indirect holding in Rosava, for a total consideration of RUB 611 million. The loss on disposal of the shares of

RUB 165 million was recognized in 2003 as part of the gains and losses related to acquisitions, restructuring and disposals of subsidiaries. At settlement of this transaction, the Company received RUB 276 million and recognized the remaining RUB 396 million as a receivable from the purchasing parties on the Company's balance sheet at its discounted value of RUB 335 million on December 31, 2003.

In addition to the share sale agreements, the Company concluded option agreements with UkrSibBank to buy back the shares for RUB 608 million, which expired on December 31, 2004. The Company believes that the option agreements empowered it to govern the financial and operating policies of Rosava, and it received the economic benefits of ownership via a fee arrangement with UkrSibBank. The Group received RUB 166 million in fees from UkrSibBank, recorded as other operating income, as compensation for the use of Rosava's resources.

For the year ended December 31, 2004 the Company consolidated the revenues, costs and results of operations of Rosava (as well as recording the fee income from UkrSibBank as other operating income), while simultaneously deducting a 100% minority interest to reflect the sale of its 51% of the shares in Rosava and the Company's maintenance of operating control over Rosava.

The Company continued this policy of consolidation until December 31, 2004, the expiry date of the option agreements. Following the expiration of the option, the Company entered into negotiations with UkrSibBank to acquire its interest in Rosava, which had since 2003 increased from 51% to 76%. In June 2005 the Company announced that it no longer intended to pursue the acquisition of the interest in Rosava, as the plant's main product lines were not in line with its new strategy of producing higher-quality passenger car tires. Consequently, as of December 31, 2004, the Company deconsolidated Rosava by recognizing the deduction of assets and liabilities against the balance of the minority interest.

Future periods

From January 1, 2005 onward, the Company expects changes in the composition of its consolidated financial statements arising from, among other things, the Vredestein Acquisition and the Rosava Disposition. The Company will be reporting results of operations and all assets and liabilities of Vredestein, consolidated into the operations of the Group, while the operations of Rosava and the corresponding minority interest will no longer be reported in the Company's consolidated financial statements.

Currency of account

The Company and its subsidiaries, except for Vredestein and its subsidiaries, maintain their books of account in rubles. Vredestein and its subsidiaries maintain their books of account in euro. For the periods under review that include Rosava, Rosava maintained its books of account in Ukrainian hryvnas. Russian subsidiaries of the Company maintain their books in accordance with the standards prescribed by the applicable regulations of the Russian Federation and Russian Accounting Standards (**''RAS''**). Vredestein and its subsidiaries maintain their books of account in accordance with Dutch GAAP. Rosava maintains its books in accordance with the standards prescribed by the applicable regulations of Ukraine and Ukrainian Accounting Standards. The Company maintains its books of account in accordance with IFRS.

The Company's historical consolidated financial statements included in this Prospectus are presented in rubles for the following reasons:

➤ The majority of its transactions for those periods were denominated and completed in rubles;

➤ Most of its management's economic and operational decisions for those periods were based in rubles; and

➤ The Company believes that reporting in rubles will better reflect the economic substance of the underlying events and circumstances relevant to it.

The Company expects to continue to present its financial statements in rubles.

Segment information

The Group presents financial information in respect of its geographical segments (based on location of customers) and business segments. Geographical segmentation was, for the years ended December 31, 2004 and 2003, presented in respect of the Group's two principal historical markets: Russia and Ukraine. After the Rosava Disposition, Ukraine has ceased to be a geographical segment. For the six months ended June 30, 2005, following the Vredestein Acquisition, Europe has been included as a geographical segment. Sales between the Russian segment and the Ukrainian segment in the years ended December 31, 2004 and 2003 were negligible.

During the six months ended June 30, 2005, there were no sales between the Russian segment and the European segment.

Business segmentation is presented, in the Group Annual Financial Statements only, in respect of the following main business segments: tires, raw materials (principally carbon black and polyamide-6 products) and other revenues. Revenues arising between business segments represent sales from the raw materials segment to the tire segment to provide the tire plants with the necessary materials for tire manufacturing. These sales are eliminated during the process of preparing the Group's consolidated financial statements and are not reported in the Group Annual Financial Statements, except to a limited extent in the footnotes. Transactions between the Group's business segments are made on an arms-length basis.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

The operations of the Group and Vredestein have historically been influenced by the following key factors, which the Group believes will continue to affect its results of operations in the future:

➤ Macroeconomic trends;

➤ Product pricing, in particular for higher-margin A- and B-segment tires;

➤ Sales volumes;

➤ Seasonality; and

➤ Costs and expenses.

Each of these factors is described below in turn.

Macroeconomic trends

Operations in Russia

The Group has significant operations in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence its results of operations. Gross Domestic Product (**''GDP''**) growth rates in Russia remain relatively high compared to North America and Europe, fuelled by oil and other commodity price increases in the international markets. Growing GDP resulted in increased real incomes nationwide. Increases in GDP and real incomes tend to lead to increases in demand for cars, both new and used, which in turn tend to lead to increases in demand for tires, both in the OE and RE markets. A significant portion of this increased demand is for higher-margin A- and B-segment tires.

The Company's management believes that higher disposable income of Russian tire consumers and shifts in consumer preferences towards higher-quality tires have stimulated demand for the Group's branded B-segment products, and the Group believes this will increase demand for the A-segment tires that it recently introduced to the market following the Vredestein Acquisition.

Below is a summary of several key macroeconomic factors that affect the Group's results of operations:

	Year ended December 31,		
	2002	**2003**	**2004**
Real GDP growth(1)	4.3%	7.3%	6.9%
Consumer price index(1)	15.1%	12.0%	11.7%
Unemployment rate(1)	7.1%	8.9%	7.4%
Urals oil, (USD per barrel)(2)	22.66	27.15	34.55
Steel: Hot-rolled coil (USD per metric ton)(3)	226	343	509
Steel: Cold-rolled coil (USD per metric ton)(3)	273	382	580
Nominal exchange rate (RUB per USD)(4)	31.35	30.69	28.82

Source:

(1) State Statistics Committee of Russia.

(2) *Bloomberg: Urals CIF Monitor.*

(3) *Metaltorg, Chermet: steel prices represent arithmetic averages of Russian domestic prices for the respective periods.*

(4) *Central Bank of Russia: average exchange rate for the respective periods.*

The Russian economy has not been significantly affected by the current global economic slowdown due to the high proportion of oil, gas and oil products and metals and minerals in its export revenues and recent high prices of these products on the international markets. The Company believes that higher disposable income of the Russian population in recent years has stimulated demand for new cars and increased average annual mileage, which in turn has caused demand for the Group's products to increase. The continuation of growth in Russian GDP and real and disposable income in Russia is subject to various risks, see ''Risk Factors–Risks relating to the economic environment in Russia.''

Operations in Europe

Most of Vredestein's operations are in Europe. As a result, European macroeconomic trends and developments will significantly influence the Group's results of operations. For the last several years, real economic growth in Europe has been limited, with a few positive exceptions. Vredestein was affected by the economic situation in Germany and the Netherlands, the two major markets for its products, due to a decrease in disposable incomes in those countries.

Below is a summary of the main macroeconomic indicators that affect the results of operations of Vredestein for the major European markets in which it operates:

		Year ended December 31,		
		2002	**2003**	**2004**
Austria[(1), (2)]	Real GDP growth	1.2%	0.8%	2.0%
	Consumer price index	1.8%	1.3%	2.1%
	Unemployment rate	4.3%	4.4%	4.5%
France[(1)]	Real GDP growth	1.1%	0.5%	2.3%
	Consumer price index	1.9%	2.2%	2.3%
	Unemployment rate	8.9%	9.5%	9.7%
Germany[(1)]	Real GDP growth	0.1%	(0.1)%	1.7%
	Consumer price index	1.3%	1.0%	1.8%
	Unemployment rate	8.7%	9.6%	9.2%
Netherlands[(1)]	Real GDP growth	0.6%	(0.9)%	1.3%
	Consumer price index	3.9%	2.2%	1.3%
	Unemployment rate	2.7%	3.8%	4.6%
Switzerland[(1), (3)]	Real GDP growth	0.3%	(0.4)%	1.7%
	Consumer price index	0.9%	0.6%	1.3%
	Unemployment rate	2.3%	3.4%	3.5%
Brent oil, (USD per barrel)[(4)]		24.97	28.84	38.34
Steel: Hot-rolled coil (USD per metric ton)[(5)]		258	294	530
Steel: Cold-rolled coil (USD per metric ton)[(5)]		313	392	617
Nominal exchange rate (USD per EUR)[1]		1.05	1.26	1.36

Source:

(1) *International Monetary Fund.*

(2) *Austrian National Bank.*

(3) *Swiss National Bank.*

(4) *Bloomberg.*

(5) *Metaltorg, Chermet.*

Product pricing and payment terms

Tire products generally

The main driver of prices for the Group's products is the prevailing conditions in the tire market, which depends principally on demand for new cars and replacement tires. Demand, in turn, is mainly driven by increases in GDP and disposable incomes in the markets for the Group's products. While the prices of its competitors are a significant factor in setting its own prices, the Group also takes into account its own production costs and minimum level of acceptable margins. Because of significantly higher margins for A- and B-segment tires, the

Group can achieve increased profitability by selling relatively low volumes of these products, by comparison to C-segment tires.

Prices of tires purchased by the Group pursuant to off-take arrangements are dependent on local manufacturing costs.

The prices the Company charges for its tire products are generally set monthly for its wholesale customers, operating under annual framework agreements. The Group reviews prices for its products offered to wholesale customers, based on changes in general market conditions. There are two types of contracts depending on the type of customer: long-term contracts (contracts with a term of several years with an option to review and adjust prices at least annually), with OEM clients or state ministries and departments that purchase large quantities of tires, and annual contracts with the Group's wholesale customers. Settlements with state clients are made on a quarterly prepayment basis, while when the Group extends credit to other customers, it is typically for up to 30 days. Average maximum credit extended to large corporate customers is not more than 45 days. For a discussion of the Group's vendor finance program, see ''Liquidity and Capital Resources–Liquidity.''

OE market
Margins in the OE market are generally significantly lower than in the RE market. Contracts with OE customers are normally established pursuant to tender processes organized by the OEMs, who purchase tires in bulk. The Group tenders for these contracts by reference to production costs or costs under its off-take arrangements, and applies an acceptable margin.

RE market
The Group's pricing policy in the RE market takes into account its competitors' prices, the differential between wholesale and retail prices for particular products, minimal acceptable margin by product and relative product positioning.

Passenger car tires and light truck tires
The prices of the Group's passenger car tire and light truck tire products are driven significantly by brand positioning. Normally, A-segment tires command the highest prices because they are marketed for use on luxury and more expensive car models. The prices for B-segment tires are targeted in the ''value for money'' range for use on non-luxury cars such as the mid-range models of international OEMs. The lowest prices are for C-segment tires, which are generally used on less expensive car models, such as those manufactured by Russian OEMs.

The Group offers discounted prices for passenger car and light truck tire products depending on market conditions. The earlier in the season that a wholesale distributor purchases tires during each of the summer and winter programs, generally, the lower the price charged.

Truck and bus tires
Truck and bus tires are sold both in the RE and OE markets and pricing for these products is mainly based on comparative pricing relative to competitors. Prices are typically reviewed monthly.

Agricultural tires
In Russia, agricultural tires are normally supplied pursuant to annual commercial RE market contracts to wholesale customers. Pricing is driven by prevailing market conditions and production costs. Prices are reviewed monthly. In Europe, approximately half of the Group's agricultural tires are sold in the OE market pursuant to annual contracts and the remainder is sold in the RE market directly to dealers.

Aircraft tires
Most of the Group's aircraft tires are sold to Russian state ministries and other governmental organizations. The Group's pricing policy for these tires takes into account prices of competing suppliers. Contracts with governmental organizations are typically concluded for a period of up to three years with an option to review and adjust prices at least annually. The Group normally requires quarterly prepayments from such customers.

Bicycle and motorcycle tires
Prices for bicycle and motorcycle products are also driven by market pricing for similar types of tires. The Group supplies these tires in the RE market only. Contracts with wholesale distributors typically allow the Group to review prices monthly.

Carbon black
Pricing of the Group's carbon black products is determined by the cost of the key raw materials, cracking residual and coke tar (whose prices are related to oil prices), prevailing market conditions and margins acceptable to the Group. The Group's Russian tire plants consume approximately 35% of its carbon black output. The rest is sold primarily to the Group's largest corporate customers (25%), the domestic Russian market (10%) and exported to various customers (approximately 30% of output), including Pirelli.

The Group negotiates quarterly prices for carbon black supply contracts. Approximately 40% of the Group's carbon black sales are made on a 100% prepayment basis, while other contracts include deferred payments ranging from 5 to 60 days depending on the size of the order.

Polyamide-6 (nylon) products
Pricing of the Group's polyamide-6 chips is driven by prices for key raw materials (caprolactam and benzol) which are highly correlated to oil prices and prevailing market conditions. As a result of increases in the price of oil and increased demand in certain markets, such as China, selling prices for the Group's polyamide-6 chips increased significantly during 2004 (up to 100% for certain types of the product). Prices are set every two weeks, and the Group requires 100% prepayment from its overseas customers. For domestic Russian customers the Group allows up to 30 days deferred payment.

Prices for polyamide-6 yarns are determined mainly by the price of key raw materials, which as petrochemicals in turn are highly correlated with oil prices. Standard contracts for polyamide-6 yarns include up to 30 days deferred payments reflecting the competitive nature of this market.

The Group sells approximately 50% of its polyamide-6 tire cords to corporate customers, while the Group itself consumes the rest. Prices are negotiated monthly and 100% prepayment terms are used. The Group uses annual framework agreements with its customers, with monthly price adjustments.

Sales volumes

RE market
Customer demand for tires in the RE market is driven primarily by the size of the domestic vehicle fleet and average annual mileage of the fleet. These, in turn, are affected by general economic conditions. During the period 2001 to 2004, the Russian passenger car market demonstrated a compound annual growth rate (**''CAGR''**) of 8.2%. This growth was driven by improvements in market infrastructure, as reflected by improved distribution and after-sales service networks, as well as availability of customer credit and trade-in services. Increasing Russian consumer income levels and other macroeconomic factors also positively affected the passenger car market. See ''Industry Overview.'' According to ASM Holding, the Russian vehicle fleet increased from approximately 28 million units in 2002 to approximately 30 million units in 2004. Car penetration in Russia grew from 130 units per 1,000 people in 2000 to 166 units per 1000 people in 2004, according to the Ladaonline market research agency.

OE market
The Group's revenues from sales in the OE market segment are driven primarily by output of new cars in Russia. This, in turn, is affected by general economic conditions. Domestic Russian car production was 1.1 million cars in 2004 compared to 972,000 cars in 2000.

Carbon black and polyamide-6 product
The Group believes that the key drivers of sales volumes of its carbon black and polyamide-6 product segment are the level of industrial production in Russia and growth in Russian GDP and in the markets to which it exports those products.

Seasonality

The Group's revenues in the tire segment are affected by seasonality. Sales of winter tires peak in late summer and autumn, while sales of summer tires peak in late winter and early spring. Revenues generated by sales of winter tires are higher overall than those generated by sales of summer tires. Accordingly, overall revenues peak in late summer and autumn.

The Group believes that it has been able to partially offset seasonal declines in revenues through so-called low season price programs. These include a vendor financing program introduced by the Company in the Russian markets in early 2005, under which it accelerates cash receipts from wholesale dealers through agreements with partnering banks to finance sales earlier in the season than would typically be the case. The cost of financing is borne by the wholesaler, but wholesaler default risk rests with the Group. While the primary effect of this program is to shift sales from peak months to earlier months when prices charged and therefore margins are also typically lower, it is the Group's expectation that overall sales will increase as a result of moving inventory to wholesalers earlier than has been typical in the past and that profits from these higher sales will be higher than the profits lost from higher-margin sales later in the relevant tire season. Because this program has only been introduced recently, it is too early to determine whether this expectation will be fulfilled. For a discussion of the effects of seasonality on the Group's liquidity, see ''–Liquidity and capital resources.''

Costs and expenses

The Group's principal costs and expenses, excluding depreciation, are:

➤ Raw materials;

➤ Labor costs;

➤ Energy expenses;

➤ Maintenance costs;

➤ Distribution and marketing costs;

➤ Research and development costs;

➤ Administrative expenses; and

➤ Taxes other than on profit.

Raw materials

The largest component of the Group's total cost of sales, excluding depreciation charge is raw materials for tire production, which constituted approximately 55.0%, 60.6% and 56.3% of total cost of sales for the years ended December 31, 2003 and 2004 and the six months ended June 30, 2005 respectively and approximately 44.9%, 48.7%, 41.7% of total revenues for the years ended December 31, 2003 and 2004 and the six months ended June 30, 2005 respectively. The Group's principal raw materials are synthetic rubber, natural rubber, textile and metal cords, carbon black, and process oil.

The prices of synthetic rubber and many other raw materials, including tire cords, carbon black and chemical supplies, are sensitive to oil prices. Changes in world oil prices can have a significant effect on suppliers, which in turn can affect the Group's profitability. Recent increases in crude oil prices have resulted in increases in raw material prices. However, price movements of certain chemicals, such as synthetic rubber, are not immediately impacted by crude oil price movements, and typically experience a time lag of approximately three months.

The prices for natural rubber, a key component in tires, have significantly increased recently and are expected to be highly volatile in the future, due to increasing wage costs in producing countries and increasing demand due to economic growth in southeast Asia. The Group procures 100% of its natural rubber from overseas suppliers through local and international traders. Prices for supplies are fixed for two- to three-month periods, which helps to round drastic price swings on the commodity exchanges.

The cost of carbon black production increases in line with fluctuations in oil prices, since its core components represent residuals of petrochemical production. Textile cord prices are largely dependent on prices for chemical products, which rose significantly in the periods under review due to increases in prices of petroleum products.

The Group is less exposed to fluctuations in textile cord and carbon black prices, since it procures all of its requirements for tire production in Russia from its Amtel-Kuzbass and Amtel-Carbon facilities. Because textile cord and carbon black for tire production in Russia are sourced within the Group, the Company is able to identify movements in prices for these raw materials sooner and build this information into its pricing considerations.

Metal cord is important raw material for production of B-segment tires. The price of steel affects the price of steel cord and bead wire supplies, though to a lesser extent than the price of oil affects the price of chemicals.

The Group's supply of key raw materials is subject to price fluctuations, including highly volatile oil prices, natural rubber and steel. Increases in the prices of crude oil, natural rubber or steel on international markets could materially affect the Group's manufacturing costs and consequently decrease operating margins. Not all raw material price increases can be readily passed through to the Group's customers. See ''Risk Factors – Risks relating to the Group's business and industry – The Group's supply of key raw materials is subject to price fluctuations, including highly volatile oil prices and natural rubber.''

Labor costs

Labor (salary) costs are allocated by employee function under ''Cost of Sales,'' ''Distribution Expenses'' and ''Administrative Expenses'' in the Group's income statement.

The Group's salary costs include wages and overtime payments, vacation and sick pay, incentives, bonuses and other related payments, pension expenses and related social taxes. The table below represents the allocation of salary costs included in cost of goods sold, selling expenses and administrative expenses, respectively:

	Six Months Ended June 30,		Year ended December 31,	
	2005	2004	2004	2003
Salary and related taxes included in:	100%	100%	100%	100%
Cost of sales, excluding depreciation charge	71%	75%	74%	78%
Distribution expenses	8%	2%	3%	2%
Administrative expenses	20%	23%	23%	20%
Service costs related to defined benefit obligation	1%	—	—	—

The Group's domestic Russian labor costs have increased in recent years due to general wage increases in the market. Labor costs accounted for RUB 1,834 million, RUB 2,356 million, RUB 1,124 million and RUB 1,596 million for the years ended December 31, 2003 and 2004 and the six months ended June 30, 2004 and 2005 respectively. Labor costs in the future are expected to be affected by the adoption of IFRS 2 *Share-Based Payments* as they will apply to the Group's stock based compensation. See ''Significant Accounting Policies — Stock-based compensation,'' note 2(e) to the Group Interim Financial Statements and note 30(b) to the Group Annual Financial Statements. The SARs, if granted, and the Share Options will be taken as a salary expense in Administrative Costs in the current year following the Offering. Based on an Offer Price of USD 11.00, the cost to the Company to be taken in its current year income statement would be approximately USD 7.0 million. (The foregoing calculation assumes that all Conditions to Exercise (as defined in each SAR Agreement) were met before the Closing Date.) The Further Share Options will have an impact on the Company's income statement for future periods depending on the fair market value of the shares at the vesting date. The Group is currently restructuring its production operations, which have resulted in headcount reductions in its Russian production facilities as a result of the introduction of automated processes and installation of more productive equipment. See ''–Liquidity and capital resources.'' The results of the Group's headcount reduction program since June 30, 2005 are set forth on the table below:

	Amtel-Povolzhye	Amtel-Tchernozemye	Amtel-Siberia
Headcount reduction since June 30, 2005	325	1,600	1,542
% made redundant since June 30, 2005(1)	7.1%	36.7%	59.5%

(1) *As a percentage of total headcount of operating personnel at that production unit as of June 30, 2005.*

Salaries accounted for approximately 18%, 19%, 23% and 23% of the Group's aggregate of cost of sales excluding depreciation charge, administrative expenses and distribution expenses for the years ended December 31, 2003 and 2004 and the six months ended June 30, 2004 and 2005 respectively. The increase in the proportion of salary and related taxes included in distribution expenses for the six months ended June 30, 2005 was due to the inclusion of distribution expenses of Vredestein, which has an extensive distribution network with sales representatives in twelve countries and more highly compensated personnel, for a portion of that period following the Vredestein Acquisition.

The table below summarizes the Group's employees by group and location (average for the periods):

Employee Numbers	Six months ended June 30, 2005	Year ended December 31, 2004	2003
Headcount total	17,722	23,003	24,488
Administrative (including distribution and sales personnel)	2,933	4,057	4,364
Operating	14,789	18,946	20,124
Amtel-Tchernozemye	4,357	3,973	4,203
Amtel-Povolzhye	4,608	4,157	3,742
Amtel-Siberia	2,592	2,558	2,420
Amtel-Kuzbass	2,293	2,396	2,432
Amtel-Carbon	620	638	621
Rosava	—	5,224	6,707
Vredestein	957*	—	—

(*) This figure reflects the average for the two months that Vredestein was part of the Group.

RUB	Six months ended June 30, 2005	Year ended December 31, 2004	2003
Average gross salary (incl. taxes), administrative	25,798	12,736	7,639
Average gross salary (incl. taxes), operating	12,577	7,636	5,938

Energy expenses
Energy expenses comprise the cost of electricity, gas, heating and other related expenses. The Group includes these expenses in the cost of sales and administrative expenses.

Maintenance
The Group incurs considerable expenditures on routine maintenance relating to its operations. These expenditures typically relate to routine repair operations, cleaning manufacturing equipment and tire molds, replacing defective parts and equipment, and general maintenance to sustain the existing standards of the Group's current facilities and production processes. The Group includes these expenses in cost of sales.

Distribution and marketing costs
Distribution and marketing costs include expenses for transportation of finished goods to customers, salaries of marketing and sales personnel and advertising and promotion expenses incurred to support sales. The Group includes these expenses in distribution expenses.

Research and development expenses
Research and development expenses comprise the development costs of new tire types, including costs of tire performance research, structural analysis, adjustments to manufacturing processes and other related expenses. The Group includes these expenses in administrative expenses.

Administrative expenses
Administrative expenses comprise expenses for administrative staff salary costs, depreciation related to administrative buildings and office equipment and other expenses. Other expenses include fees of the Group's legal advisers and auditors, insurance costs and transportation costs for personnel.

Taxes other than on profit

Taxes other than on profit comprise property taxes and land ownership tax expenses.

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO SIX MONTHS ENDED JUNE 30, 2004– GROUP HISTORICAL

Revenues

The following table sets out sales of the Group's major products by business and geographical segments for the six months ended June 30, 2005 compared to the six months ended June 30, 2004:

	Six Months Ended June 30,			
	2005	% of revenues	2004	% of revenues
	RUB million			
Revenues	7,990	100%	6,382	100%
Tires	6,648	83.2%	5,190	81.3%
Passenger car tires	3,784	47.4%	2,057	32.2%
Light truck tires	732	9.2%	1,043	16.3%
Truck tires	1,067	13.4%	1,516	23.8%
Agricultural tires	882	11.0%	381	6.0%
Bicycle tires	134	1.7%	126	2.0%
Aircraft tires	44	0.6%	56	0.9%
Motorcycle tires	5	0.1%	11	0.2%
Carbon black, polyamide-6 and other products	1,342	16.8%	1,192	18.7%

	Six Months Ended June 30,			
	2005	% of revenues	2004	% of revenues
	RUB million			
Revenues	7,990	100%	6,382	100%
Tires	6,648	83.2%	5,190	81.3%
OE	1,106	13.8%	754	11.8%
RE	5,542	69.4%	4,436	69.5%

	Six Months Ended June 30,			
	2005	% of revenues	2004	% of revenues
	RUB million			
Revenues	7,990	100%	6,382	100%
Russia	6,668	83.5%	4,850	76.0%
Ukraine	–		1,532	24.0%
Europe	1,322	16.5%	–	–

The Group's revenues increased by 25.2% to RUB 7,990 million for the six months ended June 30, 2005 from RUB 6,382 million for the six months ended June 30, 2004. The increase in revenues was principally the result of increased sales of higher-margin A- and B-segment tires, benefiting in particular from incorporation of Vredestein's sales for the last two months of the period ended June 30, 2005. See ''Business — Products and services.'' Increased unit volume tire sales in the Russian segment (excluding bicycle products), from 4.16 million units in the six months ended June 30, 2004 to 5.13 million units in the six months ended June 30, 2005, a 23% increase, also contributed to increased revenues.

The increase in revenues was also the result of growth in the weighted average unit prices for the Group's non-bicycle products, which increased from RUB 757 per tire for the six months ended June 30, 2004 to RUB 1,083 per tire for the six months ended June 30, 2005. The increase in weighted average unit price in the first six months of 2005 was attributable to the inclusion of Vredestein's higher-margin sales in the results for May and June 2005, a general increase in prices for the Group's domestic products due to ruble inflation and increased sales of higher priced B-segment tires.

Revenues from the Russian segment

Revenues from the Russian segment increased by 37.5% for the six months ended June, 30 2005 compared to the six months ended June 30, 2004 from RUB 4,850 million to RUB 6,668 million. This was mainly due to an increase in the overall number of tires sold in Russia, an increase in average selling prices and a shift in the product mix from C- to B-segment tires.

Revenues from the European/Ukrainian segment
Revenues from the European segment for the six months ended June, 30 2005 amounted to RUB 1,322 million and were derived from sales by Vredestein. Revenues from the Ukrainian segment amounted to RUB 1,532 million for the six months ended June 30, 2004; this segment was discontinued in 2005. Although revenues from the Ukrainian segment were included in the Group's consolidated revenues for the six months ended June 30, 2004, the Group simultaneously deducted a 100% minority interest to reflect the sale of its 51% interest in Rosava and the Group's maintenance of operating control over Rosava pursuant to the option agreements with the purchasing parties. See ''– Available financial information and basis of presentation– Rosava Disposition.''

Revenues from inter-segment sales
The Group did not have inter-segment sales between its Russian and European geographical segments for the six months ended June 30, 2005. Inter-segment sales between the Russian and Ukrainian geographical segments were RUB 2 million for the six months ended June 30, 2004.

Cost of sales excluding depreciation charge
Cost of sales excluding depreciation charge includes the purchase and production cost of goods sold to third parties plus a downward revaluation of inventories to reflect obsolescence of certain products.

The Group's cost of sales excluding depreciation change increased from RUB 4,730 million for the six months ended June 30, 2004 to RUB 5,920 million for the six months ended June, 30 2005, or by 25.2%. The increase in cost of sales, RUB 1,190 million, over the period under review was largely due to the inclusion of Vredestein's cost of sales in the amount of RUB 836 million for the last two months of the period and increases in the prices of all raw materials.

The table below details the cost of the Group's sales for the periods under review by major components:

	Six Months Ended June 30			
	2005 (RUB million)	% of revenues	2004 (RUB million)	% of revenues
Cost of sales, excluding depreciation charge	5,920	74.1%	4,730	74.1%
Tires	4,926	61.7%	3,840	60.2%
Raw material inputs	3,332	41.7%	2,813	44.1%
Synthetic rubber	1,563	19.6%	1,314	20.5%
Natural rubber	130	1.6%	129	2.0%
Other raw materials	1,040	13.0%	833	13.1%
Metal cord	103	1.3%	87	1.4%
Textile cord	193	2.4%	166	2.6%
Carbon black	303	3.8%	284	4.5%
Energy	422	5.3%	327	5.1%
Labor	929	11.7%	669	10.5%
Taxes	–	–	–	–
Other expenses	243	3.0%	31	0.5%
Other	994	12.4%	890	13.9%

Gross profit before depreciation
The Group's gross profit before depreciation increased from RUB 1,652 million for the six months ended June 30, 2004 to RUB 2,070 million for the six months ended June 30, 2005, or by 25.3%. The consolidated gross profit margin remained unchanged at 25.9% for the first half of 2004, as compared to the first half of 2005, because in percentage terms, revenue increases were largely matched by increases in cost of sales.

Depreciation charge related to cost of sales
Depreciation charge related to cost of sales comprises depreciation related to the Group's manufacturing property, plant and equipment. The Group incurs depreciation charges with respect to its investment in tangible assets, primarily property, plant and manufacturing equipment

Depreciation charge on tangible assets is charged to the income statement on a straight-line basis over the estimated remaining useful lives of the individual assets, which vary from 8 to 20 years for buildings, from 3 to 10 years for plant and equipment and from 3 to 7 years for fixtures and fittings.

Depreciation charge was largely unchanged for the six-month periods ended June 30, 2004 and 2005, amounting to RUB 365 million and RUB 495 million, respectively, for the resulting periods or 5.7% and 5.8% of revenues, respectively, for the resulting periods.

Gross profit
Gross profit increased by 22.4% from RUB 1,287 million for the six months ended June 30, 2004 to RUB 1,575 million for the six months ended June 30, 2005. The increase in gross profit was due to an increase in the Group's revenues and shift of the product mix towards higher value-added A- and B-segment tires, as a result of the inclusion of Vredestein for the corresponding portion of the six-month period ended June 30, 2005 following the Vredestein Acquisition. Gross profit margin decreased slightly from 20.2% to 19.7%, reflecting that, in percentage terms, revenue increases were largely matched by increases in cost of sales and depreciation.

Distribution expenses
Distribution expenses increased by RUB 236 million or 107.8% to RUB 455 million (5.7% of revenues) for the six months ended June 30, 2005 as compared to RUB 219 million (3.4% of revenues) for the six months ended June 30, 2004. The increase in distribution expenses was mainly due to higher advertising and marketing costs and increased salaries related to sales, mainly because of the inclusion of Vredestein for the corresponding portion of the latter six-month period following the Vredestein Acquisition, which has a more extensive sales force mainly to serve representations in twelve countries.

Administrative expenses
Administrative expenses increased by RUB 178 million or 42.4% to RUB 598 million (7.5% of revenues) for the six months ended June 30, 2005 as compared to RUB 420 million (6.6% of revenues) for the six months ended June 30, 2004. The increase in administrative expenses was mainly attributable to increases in labor costs due to wage inflation in Russia and the addition of Vredestein's administrative expenses, which amounted to 17.1% of administrative expenses for the six months ended June 30, 2005.

Taxes, other than on profit
Taxes other than on profit increased by RUB 6 million or 11.3% to RUB 59 million for the six months ended June 30, 2005 from RUB 53 million for the six months ended June 30, 2004. This was mainly due to an increase in the carried amount of land, property, plant and equipment.

Profit/loss on disposal of property, plant and equipment
Profit or loss on disposal of property, plant and equipment comprises profit or loss incurred in relation to sales at a price above or below the appraised value of property, plant and equipment or, in the case of losses, write-offs of property, plant and equipment items on the balance sheet.

The loss on disposal of property, plant and equipment was RUB 55 million for the six months ended June 30, 2004 reversed to a profit of RUB 12 million for the six months ended June 30, 2005. This was due to the profit on the sale of unutilized land at the Group's Amtel-Kuzbass facility.

Gains and losses related to acquisitions, restructuring and disposals of subsidiaries
Gains and losses related to acquisitions, restructuring and disposal of subsidiaries comprise the amount of gains on derecognition of liabilities, negative goodwill, gains and losses on the disposal of shares in subsidiaries, certain fee income and other matters.

Gains related to acquisitions, restructuring and disposal of subsidiaries increased by RUB 145 million to RUB 152 million for the six months ended June 30, 2005 and from RUB 7 million for the six months ended June 30, 2004. This increase is principally the result of gains on the sale of Group's wholesale subsidiaries operating in several regional centers of Russia. See note 4(c) of the Group Interim Financial Statements. The sale was effected as part of the Group's plan to centralize its Russian sales operations.

Gains related to the acquisition of minority stakes in Amtel-Povolzhye were RUB 30 million during the six months ended June 30, 2005 (zero in the prior period), which was a result of the excess of the book value of the minority interest over the consideration paid.

Other operating expenses
Other operating expenses comprise provisions for bad debts and inventory obsolescence, write-offs of miscellaneous fixed assets, penalties, fines and similar expenses.

Due to a decrease in the provisions for bad debts and obsolete inventory, other operating expenses decreased by RUB 62 million or 32.5% to RUB 129 million for the six months ended June 30, 2005 from RUB 191 million for the six months ended June 30, 2004.

Profit from operations
Profit from operations increased from RUB 356 million for the six months ended June 30, 2004 to RUB 498 million for the six months ended June 30, 2005, or by 39.9%. This increase was due to a substantial increase in the Group's gross profit (which was largely due to the factors discussed above), offset in part by an increase in distribution, administrative and other expenses as discussed above. Despite an increase in operating expense levels, the Group's operating profit margin improved from 5.6% for the six months ended June 30, 2004 to 6.2% for the six months ended June 30, 2005.

Net financing expenses
Net financing expenses comprise interest expenses in relation to loans received, losses on disposal of investments, interest income on cash balances and deposits at banks and foreign exchange gains and losses.

Net financing expenses increased by RUB 151 million or 60.2% to RUB 402 million for the six months ended June 30, 2005 from RUB 251 million for the six months ended June 30, 2004. This increase was due largely to an increase in total loans and borrowings to RUB 18,060 million as at June 30, 2005 from RUB 5,011 million as at June 30, 2004 connected with the Vredestein Acquisition. See ''–Liquidity and capital resources – Borrowings.''

Profit before taxation
Profit before taxation decreased from RUB 105 million for the six months ended June 30, 2004 to RUB 96 million for the six months ended June 30, 2005, or by 8.6%. This decrease was due largely to the increase in net financing expenses discussed above.

Income tax expense
The principal tax liability of the Group for the periods under review consists of Dutch and Russian corporate income taxes.

As a legal entity incorporated in the Netherlands, the Company and its subsidiaries resident in the Netherlands for tax purposes had their taxable profits taxed at a rate of 31.5% for the six months ended June 30, 2005. The Group's subsidiaries in Russia paid income taxes in accordance with the laws of the Russian Federation at a rate of 24% in each of the periods under review.

The charge for taxation is based on profit for each period and takes into account deferred taxes attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Income tax expense decreased by 10.1% from RUB 79 million for the six months ended June 30, 2004 to RUB 71 million for the six months ended June 30, 2005. The decrease in income tax expense was largely due to a tax reimbursement received by Vredestein and a decrease in deferred tax expense relating to Rosava.

Profit
Net profits decreased by RUB 1 million or 3.8% to RUB 25 million for the six months ended June 30, 2005 from RUB 26 million for the six months ended June 30, 2004. The decrease in net income was mainly attributable to the increase in net financing expenses discussed above.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003 – GROUP HISTORICAL

Revenues

The following table sets out sales of the Group's major products by business and geographical segments for the year ended December 31, 2004 compared to the year ended December 31, 2003:

	Year ended December 31,			
	2004 (RUB million)	% of revenues	2003 (RUB million)	% of revenues
Revenues	13,850	100%	11,281	100%
Tires	11,606	83.8%	8,915	79.0%
Bicycle tires	242	1.7%	250	2.2%
Motorcycle tires	24	0.2%	24	0.2%
Passenger car tires	5,012	36.2%	3,186	28.2%
Aircraft tires	115	0.8%	145	1.3%
Agricultural tires	624	4.5%	505	4.5%
Light truck tires	2,203	15.9%	2,389	21.2%
Truck tires	3,386	24.4%	2,416	21.4%
Carbon black, polyamide-6 and other products	2,244	16.2%	2,366	21.0%

	Year ended December 31,			
	2004 (RUB million)	% of revenues	2003 (RUB million)	% of revenues
Revenues	13,850	100%	11,281	100%
Tires	11,606	83.8%	8,915	79.0%
OE	1,549	11.2%	1,172	10.4%
RE	10,057	72.6%	7,743	68.6%

	Year ended December 31,			
	2004 (RUB million)	% of revenues	2003 (RUB million)	% of revenues
Revenues	13,850	100%	11,281	100%
Russia	10,525	76.0%	9,040	80.1%
Ukraine	3,325	24.0%	2,241	19.9%

The Group's revenues increased by 22.8% to RUB 13,850 million for the year ended December 31, 2004 from RUB 11,281 million for the year ended December 31, 2003. The increase in revenues was principally the result of increases in unit volume tire sales (excluding bicycle products) by 25.9% to approximately 14.1 million tires for the twelve months ended December 31, 2004 compared to sales of approximately 11.2 million tires (excluding bicycle tires) for the twelve months ended December 31, 2003.

The increase in revenues was also the result of growth in weighted average unit prices for the Group's non-bicycle products, which increased from RUB 771 per tire for 2003 to RUB 804 per tire for 2004. The increase in weighted average unit price in 2004 was attributable to a general increase in prices for the Group's domestic products due to ruble inflation and increased sales of higher priced B-segment tires.

Revenues from the Russian segment

Revenues from the Russian segment increased by 16.4% in 2004 compared to the year ended December 31, 2003 from RUB 9,040 million to RUB 10,525 million. This was mainly due to an increase in the overall number of tires sold in Russia, an increase in average selling prices and a shift in the product mix from C- to B-segment tires.

Revenues from the Ukrainian segment

Revenues from the Ukrainian segment increased by 48.3% in 2004 compared to the year ended December 31, 2003 from RUB 2,241 million to RUB 3,325 million. This was mainly due to an increase in the overall number of tires sold to customers in Ukraine and an increase in the average selling price. Although revenues from the Ukrainian segment were included in the Group's consolidated revenues for the year ended December 31, 2004, the Group simultaneously deducted a 100% minority interest to reflect the sale of 51% of the shares in Rosava and the Group's maintenance of operating control over Rosava. See ''–Available Information and basis of presentation–Rosava Disposition.''

Revenues from the tire segment

Revenues from the tire segment increased by 30.2% in 2004 compared to the year ended December 31, 2003 from RUB 8,915 million to RUB 11,606 million. This was mainly due to an increase in the overall volume of tires sold to customers in Russia and Ukraine, and an increase in the weighed average unit price.

Revenues from carbon black, polyamide-6 and other products (raw materials segment) and services

Revenues from the carbon black, polyamide-6 and other products segment decreased by 5.2% in 2004 compared to the year ended December 31, 2003 from RUB 2,366 million to RUB 2,244 million. This was mainly due to an increase in the amount of materials sold and an increase in the average selling price, offset by a decrease in the sales of by-products and outsourcing of services previously rendered by enterprises of the Group (e.g. cafeteria at plants).

Cost of sales excluding depreciation charge

The Group's cost of sales excluding depreciation charge increased from RUB 9,203 million in 2003 to RUB 11,126 million in 2004, or by 20.9%. The increase in cost of sales over the period under review was largely due to an overall increase in the number of tires sold and increases in the prices of all raw materials.

The table below details the cost of the Group's sales for the periods under review by major components:

	Year ended December 31,			
	2004 (RUB million)	% of revenues	2003 (RUB million)	% of revenues
Cost of sales, excluding depreciation charge	11,126	80.3%	9,203	81.6%
Tires	9,324	67.3%	7,272	64.5%
Raw material inputs	6,742	48.7%	5,061	44.9%
Synthetic rubber	3,149	22.7%	2,288	20.3%
Natural rubber	309	2.2%	212	1.9%
Other raw materials	1,996	14.4%	1,483	13.1%
Metal cord	209	1.5%	157	1.4%
Textile cord	398	2.9%	354	3.1%
Carbon black	681	4.9%	567	5.0%
Energy	925	6.7%	920	8.2%
Labor	1,455	10.5%	1,133	10.0%
Taxes	–	–	–	–
Other expenses	202	1.5%	158	1.4%
Other	1,802	13.0%	1,931	17.1%

Gross profit before depreciation

The Group's gross profit before depreciation increased from RUB 2,078 million in 2003 to RUB 2,724 million in 2004, or by 31.1%. The consolidated gross profit margin was 19.7% in 2004 as compared to 18.4% in 2003. Consolidated gross profit margin improved in 2004 as a result of the influence of the following major factors:

- Change in sales mix towards more expensive and profitable tire models with the introduction of quality B-segment tires and continued shift towards production of value-added products;
- Supply chain management and unification of tire compounds resulted in improved supply terms with providers of raw materials; and
- Disposal of non-core assets.

The favorable effects on gross profit margin discussed above were partially offset by the following factors:

- Material increases in natural and synthetic rubber prices during 2004 by 37% impacted direct material costs (on a non-consolidated basis). The Group's price increases did not fully compensate for the effects of increases in the cost of these raw materials;

➤ Growth in prices of chemical products increased the direct cost of the Group's raw materials and plant;

➤ Increases in use of higher quality components and natural rubber for higher quality B-segment tires, such as AMTEL™ NORDMASTER™ and AMTEL™ PLANET™;

➤ Increased energy and utilities prices; and

➤ Rising labor costs as a result of wage increases to help stimulate increased quality and productivity.

The Group believes that it has the ability to increase profitability by negotiating longer term contracts with its major suppliers and diversifying the Group's supplier base by standardizing its tire compounds and thus increasing the number of eligible raw materials producers.

Depreciation charge related to cost of sales

Depreciation charge related to the cost of sales decreased by 0.4% from RUB 742 million in 2003 to RUB 739 million in 2004. This was mainly due to a decrease in the recoverable amount of property, plant and equipment in Rosava due to impairment of assets in 2003. The depreciation charge for the Group's Ukrainian segment decreased by RUB 81 million or 36.1% to RUB 143 million in 2004 from RUB 224 million in 2003 due to the impairment loss discussed above. Depreciation expenses for the Group's Russian segment increased by RUB 78 million or 15.1% to RUB 596 million in 2004 from RUB 518 million in 2003. This was due to additions to the Group's fixed assets in 2004.

Gross profit

Gross profit increased by 48.6% from RUB 1,336 million in 2003 to RUB 1,985 million in 2004. This was due to an increase in the Group's revenues and a small decrease in depreciation charge related to the cost of sales.

Other operating income

Other operating income increased from zero in 2003 to RUB 166 million in 2004. This was due to the receipt of fees by the Group in the second half of 2004 as compensation from UkrSib Bank for the use of its subsidiary's resources in connection with Rosava. This fee income was recorded as other operating income in 2004. See ''– Available financial information and basis of presentation–Rosava Disposition.''

Distribution expenses

Distribution expenses increased by RUB 147 million or 48.5% to RUB 450 million in 2004 (3.2% of revenues) as compared to RUB 303 million in 2003 (2.7% of revenues). The increase in distribution expenses was mainly due to:

➤ Additional costs associated with the introduction of a pre-sale tire quality control system;

➤ Intensified marketing efforts targeted at improving the image of Amtel tires and increasing sales to end-user customers; and

➤ Increased transportation costs associated with the increased volume of tire sales.

Administrative expenses

Administrative expenses increased by RUB 442 million or 83.4% to RUB 972 million in 2004 (7% of revenues) as compared to RUB 530 million in 2003 (4.7% of revenues). The increase in administrative expenses was mainly attributable to increases in labor costs due to wage inflation in Russia and the employment of new, more highly compensated management.

Taxes, other than on profit

Taxes other than on profit decreased by RUB 34 million or 30.4% to RUB 78 million in 2004 from RUB 112 million in 2003. This was mainly due to a decrease in the carried amount of land, property, plant and equipment arising from revaluations of such assets carried out during the period.

Impairment losses and reversal of impairment losses

Impairment losses and reversal of impairment losses comprise impairment of plant, property and equipment and impairment of acquired goodwill. Reversal of impairment comprises the reversed amounts arising from revaluations of property, plant and equipment.

Impairment losses and reversal of impairment losses, net in respect of the Group
In 2004, the Group had a reversal of impairment loss in the amount of RUB 60 million, as compared to an impairment loss of RUB 1,026 in 2003. The impairment loss in 2003 was due to downward revaluation of the Group's fixed assets at Rosava and other sites in the amount of RUB 749 million and impairment of goodwill in respect of OJSC Krasnoyarsky Zavod Rubber Technical Products in the amount RUB 277 million. The reversal of impairment loss in 2004 related to an upward revaluation of fixed assets made by independent appraisers of fixed assets at Amtel-Kuzbass and the Amtel-Carbon.

Impairment losses and reversal of impairment losses, net in respect of Russian segment
Due to an upward revaluation of the Group's property, plant and equipment and construction in progress made by an independent appraiser as described above, the Group's impairment loss of RUB 452 million in 2003 reversed to a gain of RUB 60 million in 2004.

Impairment losses and reversal of impairment losses, net in respect of Ukrainian segment
Due to the deconsolidation of the Group's Ukrainian subsidiary, Rosava, from its operations in 2004, the impairment loss decreased from RUB 574 million in 2003 to zero in 2004. See ''– Available financial information and basis of presentation – Rosava Disposition.''

Loss on disposal of property, plant and equipment
The loss on disposal of property, plant and equipment decreased by RUB 22 million or 34.4% to RUB 42 million in 2004 from RUB 64 million in 2003. This was due to disposals of obsolete equipment from the Group's production sites.

Gains and losses related to acquisitions, restructuring and disposals of subsidiaries
Gains related to acquisitions, restructuring and disposal of subsidiaries decreased by RUB 979 million or by 93.9% to RUB 63 million in 2004 from RUB 1,042 million in 2003. The gains in 2003 consisted of RUB 761 million arising in respect of the bankruptcies of CJSC Sibirskaya Shina and OJSC Krasnoyarsky Zavod Rubber Technical Products, where those entities' assets were acquired by the Group and their liabilities were subsequently extinguished as part of the bankruptcy process; RUB 517 million arising from the excess of the acquirer's share in net identifiable assets over the cost of acquisition of additional shares in subsidiaries from minority shareholders; offset by losses of RUB 236 million related to disposal of shares in Rosava (RUB 165 million) and Chenigov Chemical Fiber Plant in Ukraine (RUB 71 million).

Other operating expenses
Due to a decrease in the provisions for bad debts and obsolete inventory, other operating expenses decreased by RUB 159 million in 2004, or 55.9%, to RUB 125 million in 2004 from RUB 284 million in 2003.

Profit from operations
Profit from operations increased from RUB 59 million in 2003 to RUB 607 million in 2004, or by 929%. This increase was due to the increase in the Group's gross profit and gross profit margin (which was largely due to the factors discussed above), offset in part by an increase in distribution, administrative and other expenses, as discussed above. Despite an increase in the level of operating expenses, the Group's operating profit margin improved from 0.5% in 2003 to 4.4% in 2004.

Profit from operations of Russian segment
Profit from operations for the Group's Russian segment decreased by RUB 365 million or 40% to RUB 546 million in 2004 from RUB 911 million in 2003. This decrease was due largely to a decrease in gains related to acquisitions to RUB 63 million in 2004 from RUB 1,042 million in 2003.

Profit from operations of Ukrainian segment
Profit from operations of the Group's Ukrainian segment increased by RUB 943 million to RUB 107 million in 2004 from an operating loss of RUB 836 million in 2003. This increase was due to the absence of impairment losses in 2004 as compared to impairment losses of RUB 574 million in 2003, as referenced above, as well as the inclusion of fee income from UkrSibBank for the use of Rosava's assets on top of the consolidation of 100% of Rosava's results of operations to minority interest. See ''Available financial information and basis of presentation – Rosava Disposition.''

Eliminations
Eliminations concerning unallocated income and expense items amounted to RUB 46 million in 2004 and RUB 16 million in 2003.

Net financing expenses
Net financing expenses increased by RUB 348 million or 123% to RUB 631 million in 2004 from RUB 283 million in 2003. This increase was due largely to an increase in short-term loans and borrowings to RUB 2,813 million as at December 31, 2004 from RUB 1,341 million as at December 31, 2003, and an increase in finance lease liabilities to RUB 822 million as at December 31, 2004 from RUB 35 million as at December 31, 2003.

Loss/income from investments in joint ventures
Loss from investments in joint ventures was RUB 11 million in 2004 compared to income in the amount RUB 20 million in 2003. The 2004 loss resulted from closing the operations at LLC Amtel-Nokian Tyres, a joint venture with Nokian.

Loss before tax
Loss before tax decreased from RUB 204 million in 2003 to RUB 35 million in 2004, or by 82.8%. This decrease was largely due to an increase in the Group's gross profit. Despite the increased level of financing expenses for 2004 as compared to 2003, caused by increased levels of financial debt, the increase in gross profit outweighed the increase in financing expenses.

Income tax benefit
Income tax benefit comprises current tax expenses and deferred tax benefits, obtained due to losses in prior periods and temporary differences related to changes in valuation of assets.

Income tax benefit decreased by 98.9% from a benefit of RUB 192 million for the year ended December 31, 2003 to a benefit of RUB 2 million in 2004. The decrease in income tax benefit was largely due to the disposal of Rosava and the related decrease in deferred taxes. See ''– Available financial information and basis of presentation – Rosava Disposition''.

Minority interest
Minority interest comprises the minority interests in Rosava and Amtel-Povolzhye. The minority interest gain decreased from RUB 268 million in 2003 to RUB 162 million in 2004. This relates primarily to the Group's interest in Rosava, which it disposed of in December 2003, but continued to consolidate and record a deduction in the income statement against minority interests throughout 2004. See ''– Available financial information and basis of presentation – Rosava Disposition.''

Net profit for the year
Net profit decreased by RUB 127 million or 49.6% to RUB 129 million for the year ended December 31, 2004 from RUB 256 million in 2003. This was mainly attributable to a decrease in income tax benefit, the reduced amount of positive minority interests and higher financing expenses in 2004.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003; SIX MONTHS ENDED JUNE 30, 2005 – VREDESTEIN HISTORICAL

The following discussion contains abbreviated stand-alone information for Vredestein and its consolidated subsidiaries, comparing the year ended December 31, 2004 with December 31, 2003. Also included is abbreviated stand-alone information for Vredestein and its consolidated subsidiaries for the six months ended June 30, 2005, without regard to the Group's acquisition of Vredestein on April 25, 2005. Comparable information for the six months ended June 30, 2004 is not available, because until the Vredestein Acquisition, the Vredestein financial reports were prepared on the basis of 13 four-week periods, rather than on a calendar month basis. Vredestein's revenues are affected by seasonality, with sales tending to peak in the autumn months and to fall off after the spring months. Accordingly, information for the six months ended June 30, 2005 should not be compared directly with the full year information for prior periods.

Net Sales

The following table sets out net sales of Vredestein's major products by their business segments for the periods under review. Net sales consist of revenues from goods delivered and invoiced to third parties, excluding sales tax and less discounts, rebates and guarantee payments.

	Six months ended June 30,		Year ended December 31,			
	2005		2004		2003	
	EUR million	RUB million	EUR million	RUB million	EUR million	RUB million
Net sales	105.2	3,791	230.8	8,266	216.5	7,505
Tires	105.0	3,784	229.9	8,234	215.2	7,460
Passenger car tires	61.9	2,231	150.8	5,402	141.3	4,899
SPACEMASTER™	9.5	342	19.3	691	16.7	579
Agricultural tires	21.2	764	33.2	1,189	32.0	1,109
Bicycle tires	4.5	162	9.1	326	9.9	343
Industrial tires	1.8	65	3.5	125	4.1	142
Light truck tires	6.1	220	14.0	501	11.2	388
Consulting services	0.2	7	0.9	32	1.3	45

Net sales increased by 6.5% to EUR 230.8 million for the year ended December 31, 2004 from EUR 216.5 million for the year ended December 31, 2003. The increase in revenues was principally the result of increases in passenger car tires unit volume sales by 4.9% to approximately 4.3 million tires for the twelve months ended December 31, 2004 compared to sales of approximately 4.1 million tires in 2003. The increase in net sales was also the result of growth in weighted average unit prices for Vredestein's products, which increased from EUR 34.65 per tire in 2003 to EUR 35.99 per tire in 2004. The increase in weighted average unit prices was attributable to increased margins, general increases in prices due to euro inflation, increased sales of higher priced A and B-segment tires and appreciation of the euro against the U.S. dollar. The weighted average unit prices for Vredestein's products was EUR 35.76 per tire for the six months ended June 30, 2005, which is lower than the weighted average unit prices for an annual period since sales in the period under review consists of a greater proportion of less expensive summer tires than in the second six-month period.

Passenger car tire sales increased by 8% to EUR 164.6 million in 2004 from EUR 152.4 million in 2003 mainly due to improved economic conditions in the European markets and increased demand for higher quality tires. Sales of SPACEMASTER™ tires increased by 15.6% to EUR 19.3 million in 2004 from EUR 16.7 million in 2003 due to increased demand from certain of its OEM customers. Sales of agricultural tires grew by 4.6% to EUR 31.6 million in 2004 from EUR 30.2 million in 2003 due to increased demand. Sales of industrial tires decreased by 13.6% to EUR 5.1 million in 2004 from EUR 5.9 million in 2003 due to management's steps to rationalize products and focus on profitable business lines. Sales of bicycle tires decreased by 8.1% to EUR 9.1 million in 2004 from EUR 9.9 million in 2003 due to certain quality problems with tires that Vredestein sources from third-party producers.

In January 2005 Vredestein introduced a five-shift system in its production facilities, effectively enabling it to increase unit volume output.

Cost of sales

Vredestein's cost of sales including depreciation charge related to production fixed assets increased from EUR 163.2 million in 2003 to EUR 168.2 million in 2004, or by approximately 3.1%. The increase in cost of sales over the period under review was due to the overall increase in unit volume tire sales described above. It was also driven by price increases for all raw materials and components, price increases for product off-take arrangements and increased direct labor costs. The cost of product off-take arrangements increased by 7% to EUR 32.2 million in 2004 compared to EUR 30.1 million in 2003. The cost of direct labor increased by 7.1% to EUR 37.7 million in 2004 from EUR 35.2 million in 2003 due to increased tire production and a corresponding increase in working hours and higher labor tariffs.

The table below details Vredestein's cost of sales by major components for the periods under review:

	Six months ended June 30,			Year ended December 31,					
	2005			2004			2003		
	EUR million	RUB million	% cost of net sales	EUR million	RUB million	% cost of net sales	EUR million	RUB million	% cost of net sales
Cost of net sales	73.3	2,642	100%	168.2	6,025	100%	163.2	5,658	100%
Raw materials	27.6	995	37.7%	56.1	2,010	33.4%	53.6	1,858	32.8%
Off-take arrangements	16.6	598	22.6%	32.2	1,153	19.1%	30.1	1,044	18.4%
Direct labor	14.1	508	19.2%	37.7	1,350	22.4%	35.2	1,220	21.6%
Factory overhead	15.0	541	20.5%	42.2	1,512	25.1%	44.3	1,536	27.1%

Gross profit

Vredestein's gross profit increased from EUR 53.3 million in 2003 to EUR 62.5 million in 2004, or by 17.3%. The gross profit margin increased from 24.6% in 2003 to 27.1% in 2004 mainly due to a shift to higher value-added A- and B-segment tires, introduction of new tire sizes and an overall change in the product mix.

Operating profit

Operating profit increased by 63.7% from EUR 14.6 million in 2003 to EUR 23.9 million in 2004, mainly due to higher gross margins and strict control over growth in selling expenses and personnel costs. Operating profit margin increased from 6.7% in 2003 to 10.4% in 2004.

Interest charges and similar costs

Interest charges and similar financing costs decreased by 41.7% to EUR 1.4 million in 2004 from EUR 2.4 million in 2003 due to the decreased amount of outstanding interest-bearing debt, which decreased by 6.6% from EUR 61 million to EUR 57 million. A significant portion of this debt was incurred to finance working capital needs related to excess inventory during to mild winters in 2001 and 2002. Increased profitability in 2003 and 2004 permitted Vredestein to retire a portion of this debt.

Income tax

Income tax increased from EUR 0.3 million in 2003 to EUR 7.8 million in 2004 due to the tax deconsolidation of Vredestein from its former parent company, in connection with the Vredestein Acquisition.

Net profit for the year

Net profits increased by EUR 2.7 million or 22.7% to EUR 14.6 million for the year ended December 31, 2004 from EUR 11.9 million in 2003 mainly due to higher sales volumes, an increase in average selling prices due to an overall change in the product mix and limited cost increases.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary sources of liquidity are cash provided from operating activities, commercial debt financing and access to equity markets. Funds have been used primarily to finance the renovation, expansion and maintenance of tire factories' plant and equipment, construction and acquisition of new facilities, research and development efforts, working capital needs, expansion of distribution networks and servicing of debt. The Group's business is seasonal. Its liquidity needs are highest in January due to an extended holiday period in Russia, which negatively affects both OE and RE sales, and are lowest in November because of cash receipts from sales of winter tires in the RE market. See ''–Significant factors affecting results of operations – Seasonality.'' The Group plans to fund budgeted capital expenditures, and interest and dividends mainly out of operating cash flows supplemented by additional borrowings and equity, in particular a portion of the net proceeds from the Offering.

The Group intends to improve its debt profile by retiring a portion of its short-term ruble denominated debt and by refinancing with long-term borrowings in rubles and other currencies and applying the net proceeds of the Offering. See ''Use of Proceeds.'' The Group's future operating performance and ability to service or refinance its existing debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond its control. See ''Risk Factors.''

In connection with the Vredestein Acquisition, the Group concluded the Syndicated Loan Agreements with ING Bank and ABN-Amro Bank for borrowings of EUR 138 million in the aggregate to finance the acquisition and refinance the debt of Vredestein. As of June 30, 2005, this debt amounted to EUR 130.3 million. In addition, the Group borrowed EUR 110 million from Amsterdam Trade Bank to finance the acquisition of Vredestein. The Group repaid loans from Amsterdam Trade Bank with proceeds from the issuance of USD-denominated CLNs in a total amount of USD 175 million, bearing a coupon rate of 9.25% and with a maturity of two years expiring in June 2007. Accordingly, the Group is highly leveraged and has significant debt service obligations. See ''Risk Factors – Risks relating to the Group's Business and Industry – the Group is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness and any failure to comply with such covenants could put the Group into default.''

Liquidity

The following table summarizes the liquidity ratios and working capital calculations of the Group as of December 31, 2004 and December 31, 2003.

Liquidity and working capital ratios	As at or for six months ended June 30, 2005[1]	As at or for year ended December 31, 2004	2003
Current liquidity ratio[2]	1.6	0.9	1.3
Quick liquidity ratio[3]	1.2	0.5	0.8
Trade receivables turnover, days[4]	—	20	33
Inventory turnover, days[5]	—	63	63
Trade payables turnover, days[6]	—	24	48
Working capital efficiency ratio[7]	—	14.1%	12.4%
Working capital position[8]	—	1,946	1,399

(1) *Trade receivable turnover, inventory turnover, trade payable turnover, working capital efficiency ratio and working capital position depend on a comparison of balance sheet and income statement items. Presentation of such measures for the six-month period ended June 30, 2005 would not be meaningful since balance sheet items include Vredestein figures in full, but income statements include only figures from the acquisition date.*

(2) *Current liquidity ratio is calculated as current assets divided by current liabilities.*

(3) *Quick liquidity ratio is calculated as current assets less inventory, divided by current liabilities.*

(4) *Trade receivables turnover is calculated as trade receivables divided by revenues, multiplied by 365.*

(5) *Inventory turnover is calculated as inventory balance at the end of the year net of provisions, divided by cost of sales excluding depreciation, multiplied by 365.*

(6) *Trade payables turnover is calculated as trade payables divided by cost of sales excluding depreciation, multiplied by 365.*

(7) *Working capital efficiency ratio is calculated as working capital divided by sales.*

(8) *Working capital is calculated as a sum of trade receivables and prepayments and inventories less accounts payable.*

The working capital efficiency ratio improved in 2004 compared to 2003 due to increased sales. Trade receivables turnover decreased from 33 days outstanding in 2003 to 20 days outstanding in 2004. Trade payables turnover decreased from 48 days outstanding in 2003 to 24 days outstanding in 2004, while the Group's inventory turnover remained unchanged from 2003 to 2004. For the period ended December 31, 2004, the Company had an unusually low current liquidity ratio due to the reclassification of long-term debt into short-term debt due to the long-term debt nearing its maturity. Due to refinancing of its short-term debt, with longer-term facilities, the Company was able to improve its current liquidity ratio and quick liquidity ratio during the six-month period ended June 30, 2005.

The following table sets forth the amount the Group's obligations in respect of loans and borrowings and finance leases as of June 30, 2005 by period:

	Total (RUB million)	Maturity less than 1 year (RUB million)	Maturity 1-2 years (RUB million)	Maturity 2-5 years (RUB million)
Short-term loans and borrowings (including current portion of long-term borrowings)	5,004	5,004	–	–
Long-term loans and borrowings and finance leases	13,056	–	6,532	6,524

The Group has financing arrangements with certain of its wholesale customers in Russia under which it receives from the arranging bank, payment of 90% of the price of tires sold to participating customers at the time of sale. The wholesale customer subsequently pays the bank an amount equal to the full price for the tires plus an agreed rate of interest. The bank remits the balance of the sale price to the Group upon receipt of full payment from the customer. Until such time, the Group retains the risk of non-payment by the wholesale customer and the amount is accounted for at such time as a trade receivable. While this arrangement improves the Group's liquidity, it can give no assurance that this arrangement will continue to be available on the current terms or at all.

Cash flows

The following table shows the Group's net cash flows from operating, investing and financing activities for the six months ended June 30, 2005, and for each of the years ended December 31, 2004 and December 31, 2003:

	Six months ended June 30, 2005 (RUB million)	Six months ended June 30, 2004 (RUB million)	Year ended December 31, 2004 (RUB million)	2003 (RUB million)
Net cash provided by (used in) operating activities	(1,814)	(84)	353	(290)
Net cash used in investing activities	(7,953)	(991)	(1,707)	(1,670)
Net cash provided by (used in) financing activities	12,916	814	1, 233	1,983

Net cash provided by operating activities

Net cash used in operating activities increased by RUB 1,730 million, from RUB 84 million in the six months ended June 30, 2004 to RUB 1,814 million in the six months ended June 30, 2005. This reflects the seasonal cash needs of the Group, in particular at Vredestein, where investment in multiple brands of winter tire inventory is necessary during the late spring and early summer months.

Net cash provided by operating activities increased by RUB 726 million, from a cash outflow of RUB 290 million in the previous year to a cash inflow of RUB 436 million for the year ended December 31, 2004. This was mainly due to a significant growth in the Group's operating profits (929% compared to the operating profit in year 2003), a decrease in the Group's minority interest shareholdings and better working capital management and improved credit terms for trade creditors. The positive impact on the Group's cash flows was due to higher sales volumes and realized prices were partially offset by increased income tax payments for the year 2004.

Net cash used in investing activities

Net cash used in investing activities increased by RUB 6,962 million, from RUB 991 million in the six months ended June 30, 2004 to RUB 7,953 million in the six months ended June 30, 2005. This increase principally reflects the Vredestein Acquisition in April 2005.

Net cash used in investing activities was RUB 1,707 million for the year ended December 31, 2004 and RUB 1,670 million for the corresponding period in 2003. The principal use of cash in investing activities during the periods under review, was for the purchase of property, plant and equipment. This was due to the continued renovation and retooling program for all the Group's Russian production sites, and introduction of new production equipment for premium tires at the Group's Amtel-Povolzhye and Amtel-Tchernozemye facilities. See ''Business – Operations – Manufacturing facilities.''

The table below summarizes the Group's capital expenditure program for the periods under review:

	Six months ended June 30, 2005 (RUB million)	Six months ended June 30, 2004 (RUB million)	Year ended December 31, 2004 (RUB million)	2003 (RUB million)
Capital expenditures	622	860	2,316	961
Amtel-Tchernozemye	294	561	818	562
Amtel-Povolzhye	136	208	1,215	192
Amtel-Siberia	52	20	37	89
Amtel-Kuzbass	9	7	17	48
Amtel-Carbon	45	39	46	18
Rosava	–	25	171	52
Amtel-Logistics	1	–	–	–
Vredestein	73	–	–	–
Moscow	12	–	13	–

Capital expenditure was incurred primarily to finance the acquisition of production equipment.

Net cash from financing activities

Net cash from financing activities increased by RUB 12,102 million, from RUB 814 million in the six months ended June 30, 2004 to RUB 12,916 million in the six months ended June 30, 2005. This increase was principally necessary to fund the Vredestein Acquisition and related working capital and capital expenditures.

Net cash from financing activities decreased by 37.8% to RUB 1,233 million for the year ended December 31, 2004 from RUB 1,983 million for the corresponding period in 2003. The decrease in cash from financing activities was mainly attributable to increased repayment of debt (growth by 233% to RUB 8,546 million in 2004 versus RUB 2,566 million in the previous year). Interest paid increased by 175% to RUB 662 million for the year ended December 31, 2004 compared to interest expense of RUB 241 million for the corresponding period in 2003. This increase in debt repayment was due to the maturing of short-term debt and interest payments.

For the year ended December 31, 2004, the Group raised RUB 412 million in equity financing for its operations through the private placement of preferred and ordinary shares with domestic and international financial investors. See ''Description of Share Capital and Certain Requirements of Dutch Law – Share capital – Changes in share capital.'' This represents a 35% increase in equity financing compared to the corresponding period in 2003.

Borrowings
The following table sets forth the Group's borrowings as at the dates indicated:

	June 30,		December 31,	
	2005	**2004**	**2004**	**2003**
		RUB million		
Short-term debt[(1)]				
RUB-denominated overdraft		119		
RUB-denominated loans	3,428	1,110	2,098	960
USD-denominated loans		175	–	–
EUR-denominated overdraft	464	–	–	–
Hryvna-denominated loans	–	–	–	90
RUB-denominated loans from related parties	–	–	14	22
USD-denominated loans from related parties	–	342	–	269
EUR-denominated loans from related parties	–	86	–	–
Hryvna-denominated loans from related parties	–	120	–	–
Leasing obligations	142	60	133	6
Current portion of long-term debt	370	–	101	–
Current portion of unsecured bond issues	600	–	600	–
Total short-term debt and current portion of long-term debt	5,004	2,012	2,946	1,347
Long-term debt				
RUB-denominated loans	535	102	134	70
USD-denominated loans	734	124	71	124
EUR-denominated loans	4,362	269	175	230
Unsecured bond issues	6,152	1,802	1,190	1,518
Leasing obligations	793	247	822	35
Preferred shares	480	455	449	300
Total long-term debt	13,056	2,999	2,841	2,277
Total debt	18,060	5,011	5,787	3,624

(1) *Short-term loans include the current portion of long-term loans and unsecured bond issues which amount to RUB 701 million and RUB 0 as at December 31, 2004 and December 31, 2003 respectively; and RUB 970 million and RUB 0 million as at June 30, 2005 and June 30, 2004, respectively.*

Capital Expenditures
In 2004, the Group began construction of Voronezh-II, a 25,000 square meter greenfield production line at Amtel-Tchernozemye with an expected annual capacity of 3 million tires. The Company intends that, commencing at the end of 2006, Voronezh-II will produce radial passenger car tires from 13 to 16 inches in diameter under the VREDESTEIN™ and MALOYA™ brands for Russia and export to the European market. Voronezh-II is intended to be equipped with seven tire assembly machines and 50 hydraulic presses for vulcanization. The capital expenditures required for this equipment to complete the Voronezh-II project are estimated at RUB 1,570 million to be incurred in 2006. The Group intends to finance these projects out of long-term credit facilities which it intends to enter into. There is no assurance that such credit facilities will be available to the Group.

Capital Commitments
In 2004, the Group entered into a contract with ThyssenKrupp Elastomertechnik GmbH, Germany and certain other equipment manufacturers, to purchase plant and equipment for RUB 268 million to finance capital expenditures for the Group's Voronezh-II Project at its Amtel-Tchernozemye facility. See ''Business – Operations – Manufacturing facilities – Tire manufacturing facilities.''

SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the Group Financial Statements. These accounting policies have been consistently applied, except as disclosed in the notes to the Group Financial Statements.

Early adoption
Management elected to apply the requirements of IFRS 3 *Business Combinations,* to goodwill existing at or acquired after, and to business combinations occurring from, 1 January 2003. As a consequence, the Group also applied the following revised standards before their effective dates: IAS 36 *Impairment of Assets,* IAS 38 *Intangible Assets.* Management also elected to adopt early IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* See note 3(a) to the Group Annual Financial Statements.

Inventories
Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, the cost includes an appropriate share of overheads based on normal operating capacity.

Trade and other receivables
Trade and other receivables are stated at cost less impairment losses.

Impairment
The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Calculation of recoverable amount
The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate cash inflows independently from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment
An impairment loss in respect of loans or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income tax
Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock-based compensation

Effective January 1, 2005, the Group adopted IFRS 2 *Share-Based Payments* and changed its accounting policy accordingly. Share-based compensation will be required to be recognized as labor costs allocated to administrative expenses. For the equity-settled share-based payment transactions the goods or services received and a corresponding increase in equity is measured by reference to the fair value of goods or services received, unless it cannot be estimated reliably. If the fair value of goods or services received cannot be estimated directly, the fair value of equity instruments granted is measured. For the cash settled share-based compensations the goods or services received and a corresponding increase in liability are measured by reference to the fair value of the liability. Such liability is revalued at each balance sheet date with any gains and losses being recognized in the statement of income. If the share-based compensations vest immediately, the related expense is recognized in the statement of income in full amount. If the share-based compensations have a vesting period, the expense is recognized in the statement of income over this vesting period.

As of June 30, 2005, the grant date in respect of the SARs had not occurred, and accordingly the application of IFRS 2 did not impact on the Group Interim Financial Statements.

The Company has granted certain of its executives stock-based incentives – the SARs, the Share Options and the Further Share Options. See ''Directors and Management – Share Award, share appreciation and share option agreements.'' The SARs, if granted, and the Share Options will be taken as a salary expense in administrative costs in the current year following the Offering. Based on an Offer Price of USD 11.00, the cost to the Company to be taken in its current year income statement would be approximately USD 7.0 million. (The foregoing calculation assumes that all Conditions to Exercise (as defined in each SAR Agreement) were met before the Closing Date.) The expense related to the Further Share Options will be taken as a salary expense following the vesting date, which is the earlier of a subsequent public offering and the third anniversary of the Closing Date. There may be a significant impact on the Company's income statement for future periods depending upon the fair market value of the shares at the vesting date. See also note 2(e) to the Group Interim Financial Statements and note 30(b) to the Group Annual Financial Statements.

DISCLOSURES ABOUT MARKET RISKS

Overview

The Group is exposed in the ordinary course of its business to risks related to changes in currency exchange rates, interest rates, commodity prices and energy and transportation tariffs. The Group does not currently enter into hedging or forward contracts with respect to any of these risks, and does not currently plan to enter into such arrangements.

Effect of currency movements on revenues, expenses and results of operations

Currency translation risk

Prior to the Vredestein Acquisition, substantially all the Group's transactions were denominated in rubles. Since the acquisition, a large portion of the Group's transactions are denominated in euros. As discussed above, the accounts of Vredestein and its subsidiaries are kept in euros, their functional currency.

The effect of currency translation on the Group's financial statements, arising from the depreciation of the ruble against other currencies, shows a positive impact on the Group's revenues and net income as reported in rubles in its financial statements, while the appreciation of the ruble against other currencies shows a negative impact.

Exchange rate risk
The Group's reporting currency is the Russian ruble. The reporting currency of the Group's Russian subsidiaries is the ruble, and the reporting currency of Vredestein is the euro. Outside Russia, the ruble is not a fully convertible currency. Within Russia, the CBR determines daily official exchange rates. The official rates may differ from market rates, but the differences are generally within narrow parameters monitored by the CBR. See ''Presentation of Financial and Other Information – Currency and exchange rates.''

Most of the Group's revenues (other than those of Vredestein) are in rubles. Most of Vredestein's revenues are in euro. The Group incurs approximately 79% of its direct costs, which include raw material, labor, energy, transportation and depreciation costs, in rubles. Purchases of natural rubber, synthetic rubber and certain chemicals tend to be denominated in currencies other than rubles, primarily U.S. dollars and euros. The Group incurs indirect costs, such as interest expense, in rubles, U.S. dollars and euros. The real appreciation of the ruble against the euro would have a negative impact on the Group's overall revenues because of the translation of Vredestein euro revenues into rubles. Real appreciation of the ruble against the U.S. dollar or the euro tends to decrease the Group's costs. According to the CBR and based on average nominal exchange rate for each period, the ruble appreciated in nominal terms against the U.S. dollar by 2.5% in 2003, 5.6% in 2004 and by 2.8% in first half of 2005. According to the CBR and based on average nominal exchange rate for each period, the ruble depreciated in nominal terms against the euro by 17.4% in 2003 and 3.9% in 2004 and appreciated by 1.5% in the first half of 2005.

Most of such capital expenditures are denominated in U.S. dollars, and most of such borrowing costs are denominated in U.S. dollars or euros. For this reason, the real appreciation of the ruble against the U.S. dollar or the euro tends to increase translation gains on ruble-denominated liabilities on the Group's consolidated balance sheet.

If the ruble declines against the U.S. dollar and prices for the Group's products cannot be maintained for competitive or other reasons, the Group could have difficulty repaying or refinancing its U.S. dollar- and euro-denominated indebtedness.

Raw material prices
Significant adverse changes in prices of raw materials that are used in the Group's production may materially negatively affect its operating margins, if for competition or other reasons the Group is not able to adjust prices for its products accordingly. The Group does not use any hedging against such adverse changes in prices for raw materials.

Inflation
Over the past several years, the rate of increase in the consumer price index in Russia has steadily declined, due to conservative fiscal and monetary policies and resulting federal budget surpluses. However, inflation remains high in comparison to developed countries.

Interest rate risk
The Group is exposed to variations in cash flow risk related to its variable interest rate debt and exposed to fair value risk related to its fixed-rate notes. As of June 30, 2005, approximately RUB 5,278 million, or 29% of the Group's total indebtedness, including capital leases, was variable interest rate debt, while RUB 12,782 million or 71% of the Group's total indebtedness, including capital leases, was fixed interest rate debt.

Credit risk
The Group does not require collateral in respect of financial assets. The Group performs credit evaluations on all its customers, other than related parties, requiring credit over a certain amount. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Industry Overview

In this section, statements regarding industry outlook, trends and future product development, as well as other non-historical statements, are forward-looking statements that are subject to numerous risks and uncertainties. See ''Important Information about this Prospectus — Forward-Looking Statements'' and ''Risk Factors.''

TIRE MARKET SIZE AND GROWTH

Global tire market

According to *European Rubber Journal,* the global tire market was valued at USD 80,000 million in 2003. The Group estimates that aggregate output was 1.120 million tires in 2003. During the past 5 years, the global tire market has grown by 2% to 3% annually. The Group estimates that the passenger car and light truck segments represented an average of 51% of the global tire market during the period from 1999 to 2004 in value terms. Aggregate passenger car and light truck output was an estimated 994 million tires in 2004.

The global tire market is highly concentrated among several large companies, with Bridgestone, Continental, Goodyear and Michelin collectively accounting for 55% of sales in dollar terms according to *Tire Business.* At present, the market is also concentrated geographically in North America, Western Europe, and Asia. According to *Datamonitor,* in 2003, these regions represented 29%, 28% and 28%, respectively, of global tire industry sales in unit terms.

Russian tire market

According to the Group's estimates, the Russian tire market was valued at RUB 112,000 million in 2004, with aggregate market volume of 60.9 million tires. During the past 5 years, the Russian tire market has grown at a CAGR of 5%, with 60% of this growth generated by passenger car tire sales. The passenger car tire segment represented an average of 69% of the Russian tire market in unit terms during the period from 1999 to 2004, with an aggregate market volume of 41.5 million tires in 2004. Imported tires accounted for 47% and 49% of total passenger car tire sales in 2003 and 2004, respectively.

European tire market

According to the Group's estimates, the European tire market was valued at EUR 18,200 million in 2004, with aggregate market volume of 252 million tires. During the past 5 years, the European tire market has grown at a compound annual growth rate of 3%, with 2% of this growth generated by passenger car tire sales. The passenger car tire segment represented an average of 89% of the European tire market during the period from 1999 to 2004, with an aggregate market volume of 225 million tires in 2004.

The European tire market follows the pattern of the global tire market, dominated by a small number of large manufacturers. Maturity and level of concentration in the market has contributed to the low level of growth experienced. In addition, pricing and profitability in the last decade has been affected by cyclical demand, high fixed costs, high exit and entry barriers and relatively low shipping costs.

MARKET SEGMENTATION

Passenger car tire segmentation: A-, B- and C-segments

The Group classifies the passenger car tire market into three segments on the basis of price and brand perception.

➤ *A-segment.* The A-segment is the premium tire segment. A-segment tires are typically found on upper-range cars. In both Russia and Europe, this segment consists principally of tires from Bridgestone, Goodyear and Michelin. Other A-segment manufacturers include Continental, Nokian, Group subsidiary Vredestein and Pirelli. A-segment tires are generally branded under their manufacturers' company names. According to the Group's estimates, the average retail price of A-segment tires in 2004 was RUB between RUB 2500 and RUB 3000 per tire in Russia and EUR 69 per tire in Europe. According to the Group's estimates, in 2004, the size of the A-segment market in Russia was 5.7 million tires in terms of unit sales, representing RUB 18,000 million in sales, and the size of the A-segment market in Europe was 110 million tires in terms of unit sales, representing EUR 7,600 million in sales.

➤ *B-segment.* The B-segment is the middle-market segment and consists of ''value-for-the money'' tires that lack the brand perception of A-segment tires. They are typically used on mid-range of models of Honda, Toyota, Volkswagen and comparable cars. In Russia and Europe, the manufacturers of B-segment tires include Amtel (NORDMASTER™ and PLANET™ sub-brands), Bridgestone (FIRESTONE brand), Continental (GISLAVED and UNIROYAL brands), Goodyear (FULDA brand), Kumho Tire Co. Inc. (**''Kumho''**) (KUMHO brand), Matador-Omskshina, a.o.z.t. (MATADOR brand), Michelin (B.F. GOODRICH and KLEBER brands) and Group subsidiary Vredestein (MALOYA™ brand). According to the Group's estimates, the average retail price of B-segment tires in 2004 was between RUB 1500 and RUB 2000 per tire in Russia and EUR 59 per tire in Europe. According to the Group's estimates, in 2004, the size of the B-segment market in Russia was 9.9 million tires in terms of unit sales, representing RUB 15,900 million in sales, and the size of the B-segment market in Europe was 56 million tires in terms of unit sales, representing EUR 3,300 million in sales.

➤ *C-segment.* The C-segment is the mass-market segment and consists of lower-quality, lower-priced tires. They are typically used on low-end cars such as Russian manufactured VAZ and GAZ automobiles, as well as Chinese car imports. In Russia, the C-segment includes tires from CIS manufacturers such as the Group, OAO Belshina (**''Belshina''**), OAO Nizhnekamskshina (**''Nizhnekamskshina''**), Rosava and Sibur and other small tire plants. In Europe, the manufacturers of C-segment tires include Barum Continental spol. s r.o. (**''Barum''**), Matador, Sava Tires d.o.o. and Viking Tyres (U.K.) Ltd. According to the Group's estimates, the average retail price of C-segment tires in 2004 was between RUB 600 and 1000 per tire in Russia and EUR 51 per tire in Europe. According to the Group's estimates, in 2004, the size of the C-segment market in Russia was 25.8 million tires in terms of unit sales, representing RUB 18,700 million in sales, and the size of the C-segment market in Europe was 59 million tires in terms of unit sales, representing EUR 3,000 million in sales.

Although division of the passenger car market into A-, B-, and C- segments is common throughout the global tire industry, the Group's competitors may define the boundaries of each segment according to different price points and consumer brand and quality perception. The Group also divides the light truck tire market into A-, B- and C-segments. However, the price point boundaries for each of the A-, B- and C-segments may vary between passenger car tires and light truck tires.

Replacement equipment and original equipment market segments

The tire market consists of the replacement equipment (**''RE''**) market, in which end users (car drivers) typically buy new tires to replace worn-out tires, to adapt to the different seasons or to upgrade the tires that came with their vehicles at the time of purchase, and the original equipment (**''OE''**) market, in which original equipment manufacturers (**''OEMs''**) purchase tires for vehicles produced on their assembly lines. These markets differ dramatically in terms of profitability, size and volatility of demand.

The RE market is the largest market in the tire industry. Its size is determined by the size of the vehicle fleet. Since vehicle owners typically replace tires on a regular basis, sales volumes in the RE market tend to be stable for a particular sized vehicle fleet but as the fleet grows, so typically do industry sales of tires.

The tire industry uses several statistics to measure demand in the RE market. Chief among these is a market's ''tire replacement cycle,'' which is the average number of tires sold per vehicle per year divided by four (the number of wheels for the vast majority of vehicles). The tire replacement cycle depends on variables such as climatic conditions, average annual mileage, road quality, driver adherence to safety standards and the strictness of national driving regulations. The Group estimates that the tire replacement cycle in Russia is 2.4 years and 4 years in Europe. The difference between the Russian and European tire replacement cycles is mainly due to harsher climatic conditions, poorer road quality and more lax compliance by drivers with safety standards and driving regulations.

The OE market is smaller, less directly profitable and more cyclical than the RE market. The OE market's maximum volume is, by definition, limited by the production output of vehicle manufacturers operating in a given geographic market in a given year. As a rule, each production line passenger car comes supplied with four fitted plus one spare tire. Many tire manufacturers believe that vehicle owners have a tendency to replace their original tires with the same type and brand of tire, although empirical research on this question is inconclusive. Many tire manufacturers therefore view OE contracts as an opportunity to gain a potentially captive customer base. Price is a key basis for competition between tire companies seeking to secure OE contracts. Consequently, prices in the OE market tend to be 20% to 30% lower than in the RE market.

Demand in the OE tire market is correlated with macroeconomic trends. In developed economies, the OE tire market has historically followed the automotive market, which has generally tracked the business cycle. In emerging economies, however, macroeconomic trends have historically been less cyclical and more prone to fast growth than in more developed economies. Thus, consistent with these emerging market trends the OE tire market has grown more quickly than in developed economies.

According to the Group's estimates, the size of the RE and OE passenger car tire markets in Russia in 2004 was approximately 36 million and 5.5 million tires in terms of units, respectively, representing RUB 48,700 million and RUB 4,000 million in sales, respectively. Also according to the Group's estimates, the size of the RE and the OE tire markets in Europe in 2004 was 230 million and 90 million tires in terms of sales, respectively, representing EUR 9,300 million and EUR 2,100 million in sales, respectively.

Private and commercial segmentation of the RE market
The RE market consists of private and commercial consumer sub-markets.

➤ *Private consumers* consist primarily of individuals and small businesses. Private consumers typically purchase RE tires for passenger cars, sport utility vehicles (**''SUVs''**), light commercial vehicles, agricultural vehicles, motorcycles and bicycles.

➤ *Commercial consumers* consist primarily of fleet owners and operators. Commercial consumers typically purchase RE tires for rental car and limousine fleets, light and heavy commercial vehicle fleets, bus fleets, aircraft and specialty vehicles.

Each of the two groups requires a distinct approach to marketing. Private consumers tend to rely on branding to gauge quality and performance and purchase small amounts of tires only when necessary. Tire manufacturers targeting the private consumer RE market therefore typically employ brand building marketing techniques similar to those in other consumer product industries. Commercial consumers, on the other hand, often buy tires in volume and in the normal course of business. Commercial consumers have a greater inclination to be more exacting with regards to performance and cost. They tend to measure performance of the tires they have purchased, for example, with statistical reference points such as cost relative to miles driven per tire. These consumers' past experience with product durability, safety, fuel economy and reliability is critical in the choice of brand for their fleet. Marketing to this segment generally consists of trade exhibitions and sales presentations to targeted commercial consumers, with emphasis on after-sale service and warranties.

Commercial trucking is a highly competitive business, and commercial truck fleet operators are therefore highly focused on costs. Since demand for commercial truck services generally depends on overall macroeconomic conditions, macroeconomic conditions also have a significant impact on demand for commercial truck tires. During recessions, trucks travel fewer miles and generate less wear and tear on their tires, reducing demand for replacement tires. Commercial consumers also predominate in the markets for aircraft, agricultural vehicle and earthmover tires.

MARKET TRENDS

Global tire industry

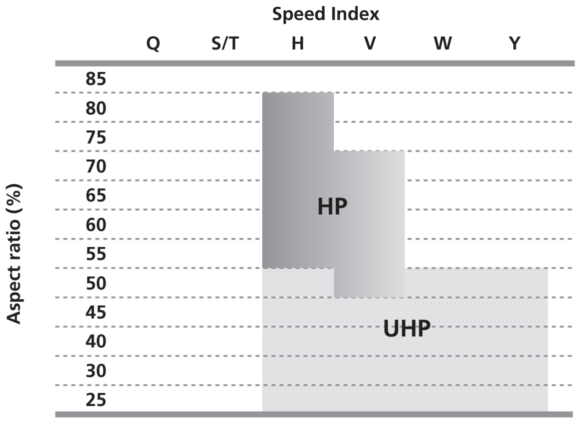
Focus on Quality

Consumers and vehicle manufacturers have been increasingly focused on vehicle safety, including tire safety. In August 2000, Bridgestone recalled 6.5 million FIRESTONE™ tires due to their alleged role in rollover accidents of Ford SUVs. Since then, tire safety has become an even more significant criterion for consumers when evaluating vehicle safety. Both consumers and vehicle manufacturers have become more brand and quality-conscious in the last decade. As a result, tire manufacturers are putting even greater resources into seeking to improve the ride and shape of tires by experimenting with new raw material combinations, including silicon-based compounds, and to customize tires to the needs of specific vehicle models and to different road and weather conditions.

Focus on Performance

Since the 1980s, automobile manufacturers have increasingly required tires with a larger rim diameter and lower aspect ratio to increase handling precision and performance during high-speed cornering. As a result, tire manufacturers have developed ultra-high performance (**''UHP''**) and high-performance (**''HP''**) tires, which are sub-categories of the A-segment of the tire market. UHP and HP tires are typically used on upper-range sports cars, luxury cars and SUVs, all of which require superior handling in high-speed situations and have been growing as a segment of the car market as a result of evolving consumer preferences for these types of automobiles. Due to their high performance, they are the most expensive categories of passenger car tires currently on the market.

The speed indices and aspect ratios of HP and UHP tires differ from those of other passenger car tires. A tire's speed index is largely determined by its rim diameter and aspect ratio. A tire's rim diameter corresponds to the size of the wheel to which it can be affixed. The aspect ratio of a tire is the ratio of the height of the sidewall of a tire to the tire width. The following chart indicates the speed index and aspect ratio range for HP and UHP tires.



Seasonality

In most markets, the global tire industry is highly seasonal. In the wholesale market, sales of winter tires peak from September to October, whereas sales of summer tires peak from March to April. Generally, sales of all-season tires are more stable throughout the year but decrease slightly from January through March.

Sales in the retail market lag approximately one to two months behind sales in the wholesale market. In the retail market, sales of winter tires peak from October to November, whereas sales of summer tires peak from April to May. Generally, sales of all-season tires are more stable throughout the year but decrease slightly from February through April.

Run-Flat tires

As car design becomes increasingly sophisticated and interested in fuel efficiency, automakers are examining ways to eliminate the spare wheel, to save space and reduce weight. A prominent solution in mainstream development is the run-flat tire. Run-flat tires are tires that can be punctured and continue to perform at the level of a fully-inflated tire to a prescribed standard. The currently proposed standard is 80/80, or a tire that can run for 80 km at 80 kph. A second standard, 50/50, or a tire that can run for 50 km at 50 kph, has also been proposed. However, as of yet, no standard has been accepted among major industry participants, and the technology that has been developed is still far from a level of refinement acceptable for mass consumption.

RUSSIAN MARKET

A- and B-segment growth

Russian consumers are increasingly purchasing cars produced by foreign car companies, which tend to be more expensive than Russian-produced cars and which use A- or B-segment tires. This trend has caused the A- and B-segment of the Russian tire market to grow disproportionately quickly relative to the overall Russian tire market. The Group believes that as consumer incomes and spending in Russia increase, demand for higher quality cars and automotive products will increase. The Group therefore believes that A- and B-tire segments will offer the best potential for growth and the currently dominant position of the C-segment will deteriorate.

In addition, foreign OEMs have increasingly been producing passenger cars in Russia to avoid Russian tariffs on imported passenger cars. Foreign OEMs have typically sourced A- and B-segment tires locally, both for logistical convenience and to avoid Russian tariffs on imported tires.

Car market growth

Demand for tires tends to be correlated with the size of the vehicle fleet, the growth of which, in turn, tends to be correlated with disposable income. According to ASM Holding, the Russian vehicle fleet increased from approximately 28 million units in 2002 to approximately 30 million units in 2004.

During the period 2001 to 2004, the Russian passenger car market demonstrated a CAGR of 8.2%. This growth was driven by improvements in market infrastructure, as reflected by improved distribution and after-sales service networks, as well as availability of customer credit and trade-in services. Increasing Russian consumer income levels and other macroeconomic factors also positively affected the passenger car market.

J.D. Power & Associates anticipates that local Russian car production will experience a CAGR of 5% during the period from 2004 to 2010, growing from 1.1 million cars in 2004 to 1.48 million cars in 2010. The production of cars by Russian OEMs is expected to grow by 1.1%, compounded annually, between the period from 2004 to 2010. New car sales are expected to grow at a 4.6% CAGR during the period from 2004 to 2010, increasing from 1.25 million cars in 2004 to 1.64 million cars in 2010.

EUROPEAN MARKET

The European market generally follows the trends of the global tire market, including the increasing demand of tires. During the past ten years, the number of tire specifications (in terms of width, diameter, profile and speed rating) produced by tire manufacturers for the European market has increased to close to 500, according to Group estimates. This trend has been driven by the development of faster and heavier cars, as well as consumer preferences for metallic alloy rims. The Group believes that the European market for passenger car tires will grow at an overall average of 2% per year during the next three years, in part driven by the evolution toward the high speed ratings and larger diameter specifications characterized by HP and UHP tires. Unit sales in Western Europe are predicted to be stable, offset by growth in Eastern Europe at a rate moderately higher than the 2% European average.

TIRE MANUFACTURING PROCESS

The tire manufacturing process consists of the following steps:

➤ *Raw Materials Sourcing.* Key raw materials, such as natural rubber, synthetic rubber, carbon black, silica, pigments, acceleration plasticizers, initiators, vulcanizing agents and other additives, are either sourced internally, purchased on spot markets or procured from suppliers, which may include a given tire manufacturer's competitors.

➤ *Rubber Preparation.* The raw materials are batched in pre-selected quantities and mixed in a ''Banbury'' unit at high temperature. The mixed batch is discharged onto an open roll mill, or ''granulating extruder,'' to be processed into lengths of rubber or granules as required. The milling operation kneads and rolls the rubber into a malleable sheet in preparation for extruding. The extruding process can be either hot or cold and forces the milled rubber compound through dies to form various shapes for tread profiles, sidewall stock, and so on. This mixing process is repeated two or more times, during which further chemicals are introduced to obtain the final rubber compound.

➤ *Rubber Processing.* The rubber sheet is directed to a ''calander,'' where it is reinforced with a textile sheet or steel braid as it goes to a series of rollers. The rubberized fabric of the braid is then cut to size.

➤ *Tire Assembly.* The rubber is sent to the tire assembly area together with components such as tire beads and rubberized circular wire beads, which are assembled in the tire to form a seal between the tire and the rim. Assembly usually includes two stages: assembly of the tire carcass and tread application. Both stages of assembly may be automated or manual.

➤ *Curing.* The assembled tires are treated with chemicals in preparation for vulcanizing.

➤ *Vulcanizing.* The cured tires are loaded into tire vulcanizing presses and treated under high temperature and pressure. During vulcanization, the polymer chains in the rubber matrix bond to form a durable, elastic, and tough product.

➤ *Quality Control.* Each tire is individually inspected for faults and blemishes and is passed, repaired or scrapped as necessary.

Regulatory Matters

The Group's businesses are subject to numerous laws and regulations that are summarized below.

RUSSIAN LAW

General

Russia has not enacted any specific legislation governing the operation of the tire industry and the activities of tire manufacturing companies. The production, sale and distribution of tires in the Russian Federation is regulated by general civil legislation, special legislation and by other laws relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Energy of the Russian Federation (to which powers were transferred from the Ministry of Industry, Science and Technology) is the principal agency supervising the operation of the tire sector. The Ministry of Industry and Energy is responsible for the development of the governmental policy in the industry (attraction of investment, foreign trade, taxation, support of scientific research, employment), however, it lacks direct regulatory authority. The Ministry of Industry and Energy also sets and oversees compliance with obligatory general and industrial standards.

The Federal Service for Environment, Technology and Nuclear Supervision oversees compliance with mandatory safety rules for the tire industry elaborated by the Ministry of Industry and Energy. Safety procedures at installation, deployment and operation of technical devices and machinery used in the tire industry and the procedure for maintaining technological processes are covered by such rules.

The Federal Antimonopoly Service (**''FAS''**) oversees the acquisition of controlling stakes in companies and dominant market positions.

The Federal Agency for Intellectual Property, Patents and Trademarks (Rospatent) registers patents, trademarks and other intellectual property, and related license agreements.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of licenses issued by the Ministry of Natural Resources and environmental legislation.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and imports of tires and raw materials used in the production thereof and coordinates intergovernmental negotiations relating to export/import activity.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervision over the Russian tire industry, several other governmental bodies and agencies have authority over general issues connected with the tire industry such as defense, rail transport and tax enforcement.

Licensing

The Group must obtain numerous licenses, authorizations and permits from Russian governmental authorities to conduct its operations. Federal Law dated August 8, 2001, ''On Licensing of Certain Types of Activities,'' as amended (the **''Licensing Law''**) entered into force in January 2002. The Licensing Law sets forth a list of activities that require a license from applicable Russian authorities. In the tire industry, the generation of certain hazardous wastes, the operation of explosives, the use of certain chemicals, and the construction of buildings connected with tire production may all require licenses.

Under the Licensing Law, a license is issued for a minimum of five years and may generally be extended upon application by the licensee. Licenses for the use of natural resources may be issued for periods of up to 25 years. Certain licenses may also have unlimited terms. Licensees may apply to extend expired licenses.

If a licensee repeatedly breaches the terms of a license without mitigating circumstances, the licensing authority may petition a court to cancel the license. A court may also cancel the license in certain other cases, such as if a licensee damaged the rights, legal interests or health of third parties when breaching the terms of a license. In addition, the licensing authority may cancel a license without a court order if the licensee does not pay applicable licensing fees within three months of the granting of the license.

Land use rights
Russian law prohibits commercial activity on a land plot without appropriate land use rights.

Under the Land Code of the Russian Federation of October 25, 2001, as amended (the **''Land Code''**), companies generally have one of the following rights with respect to land in Russia: (1) ownership, (2) right of free use for a fixed term, (3) lease, or (4) servitudes.

Federal, regional or municipal authorities own most land in Russia. These authorities can sell, lease or grant other use rights to third parties through public auctions, tenders or private negotiations. Companies may also have a right to the perpetual use of land that they obtained before enactment of the Land Code. However, with certain exceptions, the Land Code's implementing legislation requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by January 1, 2006.

A lessee generally has the priority right to renew a lease. In order to renew a lease, the lessee must apply to the lessor for renewal of the lease agreement before its expiration. Lease agreements for a term of longer than one year must be registered with the applicable state authorities.

The Group has purchased most of the land relating to its tire and raw materials facilities. With respect to the land that it has not purchased, it generally has a right of perpetual use or has entered into long-term lease agreements with the owner.

Antimonopoly regulation
FAS may regulate certain of the Group's acquisitions.

The FAS must approve acquisitions of:

➤ More than 20% of the voting shares of a Russian legal entity;

➤ More than 10% of the fixed and intangible assets of a legal entity; and

➤ Control over companies,

in each case if:

➤ The book value of combined assets of the acquirer and target, together with those of their respective affiliates, exceed 30 million statutory minimum wages, which is currently equivalent to approximately RUB 3,000 million; or

➤ The target and acquirer, together with their respective subsidiaries, have more than a 35% share of a particular market.

In approving such acquisitions, the FAS may impose conditions designed to promote competition, including limitations on prices, geographical expansion, associations and agreements with competitors. In addition, a company holding more than a 65% a market share in a particular market is presumed to hold a dominant position in that market.

Companies holding such a dominant position may not, in general:

➤ Limit sales in order to create a deficit or to increase prices;

➤ Impose unfavorable contractual terms on their contractors that are not justified by the subject of the contract, (e.g. unjustified demands for the transfer of assets or property rights);

➤ Impose discriminatory terms on access of competitors to the market;

➤ Create barriers to entry into or exit from the market;

➤ Violate legal or regulatory requirements relating to pricing;

➤ Fix excessively high or excessively low prices;

- Decrease or terminate production of goods that are in demand or that are ordered by consumers when there is an possibility of producing such goods without sustaining loss; or

- Arbitrarily refuse to enter into a sales agreement with particular customers if it is feasible to produce or deliver the relevant goods.

The FAS can issue binding orders on companies holding a dominant position, (e.g. requiring companies to treat customers equally or imposing pricing restrictions). In addition, the FAS can require companies that hold a ''dominant position'' to spin-off business operations if:

- The company has repeatedly violated Russian antimonopoly regulations. In this context, ''repeatedly'' means at least twice within three years;

- The spin-off would increase competition;

- A structural unit of the company may be organizationally and territorially separated from the company;

- There is no tight technological interconnection between structural units of the company. In particular, less than 30% of the relevant structural unit's output is consummated internally; and

- The legal entities resulting from such spin-off may function autonomously.

Environmental matters

The principal environmental statute in Russia is the Federal Law dated January 10, 2002, ''On Environmental Protection'' (the **''Environmental Protection Law''**). In addition, other federal and local laws may regulate environmental matters.

Pay-to-pollute

The Environmental Protection Law establishes a ''pay-to-pollute'' regime administered jointly by federal and local authorities. The Ministry of Natural Resources has established environmental impact standards, such as limits on emissions and hazardous waste disposal. A company can obtain a permit to exceed these limits from the federal or regional authorities, depending on the type and scale of the proposed environmental impact. As a condition to such a permit, the company must develop a plan for the reduction of emissions or hazardous waste disposals and submit it to the applicable government agency for approval.

Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake remediation and clean-up activities.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law on Ecological Expert Examination of November 23, 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under ''–Environmental liability.''

Enforcement authorities

The principal agencies involved in environmental enforcement are the Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use and the Federal Agency on Forestry and the Federal Agency on Water Resources. The federal government and Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organizations, can also initiate lawsuits to seek compensation for environmental damage. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If a company's operations violate environmental regulations or harm the environment or any person, environmental authorities may bring a court action to limit or ban such operations and to require the company to remedy the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative or civil liabilities, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Environmental protection programs

The Group has been developing and implementing environmental protection programs at all of its tire manufacturing and raw material facilities. Such programs include facilitating adherence to limits on air and water pollution and the storage of industrial waste, introducing environmentally-friendly industrial technologies, building purification and filtering facilities, repairing and building industrial water supply systems, installing metering systems and the recycling of water and industrial waste.

Health and safety

Workplace safety issues are important to the operation of the Group's manufacturing facilities. The principal law regulating industrial safety is the Federal Law dated July 21, 1997, ''On Industrial Safety of Dangerous Industrial Facilities,'' as amended (the **''Safety Law''**). The Safety Law applies to certain industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia, effective as of February 1, 2002, as amended (the **''Labor Code''**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programs, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and labor

The principal statute governing employment matters in Russia is the Labor Code, although other federal laws and regulations impact employment matters as well, such as the:

➤ Federal Law on Collective Contracts and Agreements, dated March 11, 1992, as amended;

➤ Federal Law on the Procedure of Settlement of Collective Labor Disputes, dated November 23, 1995, as amended;

➤ Federal Law on Employment in the Russian Federation, dated April 19, 1991, as amended; and

➤ Federal Law on the Fundamentals of Protection of Labor in the Russian Federation, dated July 17, 1999, as amended.

Employment contracts

Because Russian labor law imposes restrictions on an employer's ability to enter into term employment contracts, the Group generally enters into employment contracts for an indefinite term with its employees. However, employers may enter into employment contracts for a fixed term of up to five years in certain cases where an indefinite term is infeasible due to the nature of the employment, as well as in other cases identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds set forth in the Labor Code, including:

➤ Liquidation of the enterprise or downsizing of staff;

➤ Failure of the employee to comply with the position's requirements due to incompetence or health problems;

➤ Systematic failure of the employee to fulfill his or her duties;

➤ Any single gross violation by the employee of his or her duties; and

➤ Provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation, including severance and, depending on the circumstances, salary payments for a certain period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of fourteen or disabled child under the age of eighteen or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

Courts may invalidate terminations inconsistent with the Labor Code and order the employee reinstated. Lawsuits resulting in the reinstatement of illegally terminated employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. If a court reinstates an employee, the employer must compensate the employee for wages accrued during the period between the wrongful termination and the reinstatement, as well as for mental distress.

Working time

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from six to 36 working days.

Salary

Federal law establishes the minimum monthly wage in Russia at RUB 720 from January 1, 2005. Although the law requires otherwise, the current minimum wage is generally below a minimum subsistence level.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes; a pre-strike negotiations process, preliminary notification of employer about a future strike, the obligation of employees to arrange a preliminary one-hour-long strike before the main one and others. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination of employment contract.

DUTCH LAW

General

The Netherlands has not enacted any special legislation governing operation of the tire industry and activities of tire manufacturing companies. Instead, other legal acts relating to quality standards, industrial safety rules, and environmental and other issues all apply to the tire industry.

The Dutch Ministry of Economic Affairs defines, implements, and regulates the enforcement of economic policy both centrally and through eight agencies and two independent administrative authorities.

The Netherlands Competition Authority (**"NMA"**) is an independent authority that enforces laws that prohibit cartels and the abuse of dominant positions. It also scrutinizes mergers and takeovers.

In addition to the Ministry of Economic Affairs and the NMA, several other governmental bodies and agencies have authority over general issues related to the tire industry.

Licensing and environmental matters

In the Netherlands, the Group's operations must comply with applicable environmental laws, including the Environmental Management Act. Under the Environmental Management Act, companies are required to obtain a permit regulating environmental impact, including dust, odor, noise and waste emissions. In addition, other specific environmental permits, such as a discharge permit under the Pollution of Surface Waters Act, may be required.

Failure to comply with any environmental permit may result in administrative action, including the modification or revocation of the permit. Additionally, permits are periodically assessed to determine whether they are up to date in light of technical and/or environmental developments. The authorities can, on their own initiative or at the request of the permit holder or an interested third-party, decide to alter or revoke a permit if there has been a change of relevant circumstances under which the permit was granted. Authorities can initiate investigations or require the permit holder to initiate such investigations to ensure that the permit holder is in conformity with the most recent standards of environmental safety. Such investigations may lead to modifications of, or further restrictions imposed under, the permits. Dutch environmental law is based on the ALARA-principle, which means that the negative environmental impact has to be reduced to a level as low as reasonably achievable. As a result of this principle, the latest technical or scientific developments having an impact on environmental safety may be cause for imposing stricter regulations in a permit.

The Soil Protection Act regulates environmental impact on soil and ground water. Among other matters, it imposes a duty of care to prevent soil and ground water pollution and an obligation to clean-up any pollution caused. Owners or lease holders of contaminated soil may be forced to clean-up historic soil and ground water contamination.

On April 1, 2004, a decree of the Netherlands Ministry of Housing, Spatial Planning and the Environment on car tire management entered into force. This decree requires producers and importers of car tires to establish a framework for collecting and processing used car tires so that all owners of used tires may dispose of their tires free of charge. The decree is designed to prevent illegal dumping and to promote recycling.

Land use rights

Land use is regulated in the Netherlands, principally by municipal zoning. Zoning regulates the use of land covered by the zoning plan and the size and architectural parameters of buildings and other structures thereon.

Title to real estate and encumbrances thereon are registered at the Land Registry. The Land Registry is a register of titles (as the title to real estate is contained in the deed of conveyance). Proof of title is obtained by reviewing a copy of the deed in combination with the registration at the Land Registry. By law, third parties are entitled to rely on the accuracy of the information registered at the Land Registry, unless the third-party should be aware that the information is inaccurate.

All deeds concerning real estate rights (including conveyance, mortgage and leasehold deeds, building rights and easements) must be registered. A civil law notary, in whose presence the deed is executed, must submit a true copy of the deed to the Land Registry. Information concerning, among other things, seizure under a writ of attachment, listing as a monument, soil contamination, constructors exercising retention rights, requirements imposed by governmental authorities (for example, home improvements and soil decontamination measures) may also be registered.

Antimonopoly regulation
The Group is subject to European and Dutch competition law. European competition law governs matters, which may affect trade between the member states of the European Union. The Dutch Competition Act governs matters, which may adversely affect competition in the Netherlands without having a transborder effect within the European Union.

Article 81(1) of the Treaty establishing the European Community and Article 6(1) of the Dutch Competition Act prohibits anti-competitive agreements and concerted practices which restrict competition and may affect trade between member states. Article 82 of the Treaty establishing the European Community prohibits companies holding a dominant position from abusing that position if it affects trade between member states. In a similar fashion, Article 24 of the Dutch Competition Act prohibits undertakings from abusing a dominant position.

A merger is generally subject to the EC Merger Regulation where (i) the combined worldwide turnover of all the parties involved is more than EUR 5 billion, and (ii) the EC turnover of at least two of the parties involved is more than EUR 250 million. A merger that does not meet these thresholds will still be subject to the EC Merger Regulation if (i) the combined worldwide turnover of all the parties involved is more than EUR 2.5 billion, (ii) in each of at least three member states the combined aggregate turnover of all the parties involved is more than EUR 100 million, (iii) in each of at least three member states included for the purpose of the previous condition, the aggregate turnover of each of at least two of the parties involved is more than EUR 25 million, and (iv) the aggregate community-wide turnover of each of at least two of the parties involved is more than EUR 100 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate community-wide turnover within one member state.

A concentration is subject to the Dutch Competition Act if (i) the concentration is not subject to EC merger control, and (ii) the combined worldwide turnover of the parties concerned in the preceding calendar year has exceeded EUR 113,450,000, of which at least EUR 30 million has been realized in the Netherlands by each of at least two of the companies concerned.

The application of Dutch competition law is administered by the NMA. Also, the monitoring of compliance with the conditions of Article 81(3) of the EC Treaty has been decentralized. As from the effective date of EU Regulation 1/2003 (May 1, 2004), the national courts and national competition authorities may apply the entire body of competition rules promulgated by in the EC Treaty.

Health and safety
The two principal statutes governing employees' health and safety are the 1919 Labor Act and the 1980 Working Conditions Act, applying in principle to all activities. In addition, other statutes exist which apply only to specific activities, such as the 1936 Drivers' Hours Act and the 1963 Nuclear Power Act. Both general and specific health and safety legislation falls within the domain of public law, and violation of the provisions is a punishable offense.

The Working Hours Act provides for the permissible total length of daily and weekly working hours and rest periods, and also contains specific provisions on the protection of young workers and women.

The Working Conditions Act was introduced in 1980 and establishes the framework for promoting humane working conditions (quality of work). Under the Working Conditions Act, the employer must involve employees in the formulation of health and safety policy within the enterprise. To this end, employers are under an obligation to consult the Works Council, if any, in advance on the policy to be followed. In practice, this consultation is often conducted through a health and safety committee of the works council.

Responsibility for the enforcement of health and safety law lies with the officials of the Labor Inspectorate, now incorporated into the Inspection and Information Service of the Ministry of Social Affairs and Employment.

Employment and labor
Various Dutch labor laws exist. Labor law in the Netherlands is mainly governed by the Dutch Civil Code. The Dutch Civil Code contains a chapter existing of mandatory rules governing employment contracts. These provisions are applicable to all employees in the Netherlands, irrespective of income, function or the sector of industry where they work.

Collective bargaining agreements
A collective bargaining agreement is a binding agreement between employers or employers organizations and trade unions which establishes the employment terms of employees in a certain sector of industry or company.

Employers that are members of or a party to the collective bargaining agreement need to apply the collective bargaining agreement in their companies and to all their employees, whether or not they are union members. The Minister of Social Affairs and Employment can, however, declare a collective bargaining agreement binding on an entire industry. In that case, the collective bargaining agreement covers all employers and employees in that industry, even those employers—and their employees—that were not involved in negotiating the agreement. Declaring a collective bargaining agreement binding on an industry prevents employers from competing on employment terms. More than 84% of employees in the Netherlands are covered by a collective bargaining agreement.

Industrial relations

In the Netherlands, labor and management consult at different levels with the aim of achieving consensus on the policy objectives. At the company level, the elected works council consults with company management on matters concerning the company. At the industry level, trade unions and employers' associations consult on collective bargaining agreements. At the national level, labor and management consult in the Social and Economic Council and the Labor Federation.

Works councils

The Dutch Works Council Act (*Wet op de ondernemingsraden*) (**''WCA''**) requires all enterprises with at least 50 employees to set up a works council. The works council has the following powers:

- To provide advice on decisions concerning, among other things, the transfer of control of the enterprise or any part thereof and a significant reduction, expansion or other change in the activities of the enterprise. If the enterprise takes a decision contrary to the advice of the works council, it must suspend the implementation of the decision for one month after the date on which it notified the works council of the decision. During this one month period, the works council may lodge an appeal against the decision with the Enterprise Chamber of the Court of Appeal in Amsterdam. The only valid grounds for such appeal are that the company could not, in all reasonableness, have arrived at the decision in question. These grounds will typically exist if procedural errors have been made. Adjudication of the appeal generally takes a minimum of two months;

- To consent to employer decisions on the adoption, amendment or repeal of arrangements in respect of remuneration, health and safety and work hours. Absent such consent, the employer cannot implement the decision in question; and

- To receive certain information from the employer.

SER

Established pursuant to the 1950 Industrial Organization Act (*Wet op de bedrijfsorganisatie*), the Social and Economic Council (**''SER''**) is the main advisory body to the Dutch government on national and international social and economic policy. The SER is financed by industry and is independent from the government. It represents the interests of trade unions and industry, advising the government, whether upon request or upon the SER's own initiative.

The SER also has an administrative role, which consists of monitoring commodity and industrial boards. In the Dutch economy, industrial boards represent the interests of particular industries and consist of employer and union representatives. In addition, the SER helps the government enforce the WCA, the Establishment of Businesses Act (*Vestigingswet Bedrijven*) and the Insurance Agencies Act (*Wet Assurantiebemiddelingsbedrijf*).

Structure regime

Under Dutch law, the shareholders of a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) have substantial power over the company and its management board through their right to appoint and dismiss the managing directors. Although Vredestein currently qualifies as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*), it may become subject to the ''structure regime'' under Dutch law at the earliest in 2009. Once subject to the structure regime, Vredestein would be required to amend its articles of association and institute a mandatory supervisory board, which would limit the ability of shareholders to appoint and dismiss its managing directors, which could adversely affect the payment of dividends to the Company.

The structure regime obliges a company to install a supervisory board consisting of at least three members in addition to its management board. See ''Description of Share Capital and Certain Requirements of Dutch Law—Board practices.'' A company's works council has the right to make sub-recommendations for a maximum of one-third of the total number of the supervisory board members, which recommendations the supervisory board must follow. If the general meeting of the shareholders loses confidence in the supervisory board, it has the right to remove the entire supervisory board. In that case, a Dutch court will appoint an interim supervisory board, which then will make a binding recommendation to form a new supervisory board.

Business

OVERVIEW

The Group is an international producer and supplier of tires for passenger cars, light trucks, heavy trucks, agricultural vehicles, aircraft and bicycles. According to ASM Holding, a consultancy that analyzes the CIS automotive industry, the Group is one of the three largest tire manufacturers in the CIS. The Group is also a significant producer of tire industry-related raw materials, such as carbon black and polyamide-6 products. The Group operates integrated manufacturing facilities in Russia and the Netherlands, as well as a sales network in the CIS, Europe, North America and Asia.

The Group has experienced significant growth in recent years. The Group launched its tire business in 1997 and by 2004 had aggregate sales of approximately 21.8 million tires, on a pro forma basis. See ''The Group–Evolution of the Group's tire business.'' In 2004, the Group had a 13.5% share of the overall Russian tire market and a 13.4% share of the Russian passenger car tire market, in each case in terms of unit sales on a pro forma basis. In April 2005, the Group expanded its operations outside the CIS by acquiring Vredestein, a Dutch premium tire company. The Group estimates that Vredestein sold 4.6 million passenger car and light truck tires in 2004, giving it, in terms of unit sales, a 1.9% share of the overall European passenger car and light truck tire market and a 3% share of the German passenger car and light truck tire market, Vredestein's most significant market in Europe. According to 2003 worldwide revenues data published by the *European Rubber Journal,* the combination of the two businesses made the Group the twelfth largest global tire manufacturer.

On a pro forma basis, in 2004, the Group's revenues, EBITDA and net profits were RUB 18,437 million, RUB 2,675 million and RUB 288 million, respectively, of which RUB 7,912 million, RUB 1,462 million and RUB 368 million were attributable to Vredestein, respectively. On a pro forma basis, in the first six months of 2005, the Group's revenues, EBITDA and net profits were RUB 10,459 million, RUB 1,598 million and RUB 84 million, respectively, of which RUB 3,791 million, RUB 573 million and RUB 60 million were attributable to Vredestein, respectively. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

The Group focuses on the passenger car tire market, for which it produces A-, B- and C-segment tires. On a pro forma basis, sales of B-segment tires accounted for 10.7% and 20.7% of the Group's revenues in 2004 and the first six months of 2005, respectively. On a pro forma basis, Vredestein sold 18.2% and 9.8%, respectively, of the Group's B-segment tires in unit terms. On a pro forma basis, sales of A-segment tires accounted for 29.2% and 22.4% of the Group's revenues in 2004 and the first six months of 2005, respectively. Vredestein sold all of these tires. On a pro forma basis, sales of C-segment tires accounted for 9.4% and 9.2% of the Group's revenues in 2004 and the first six months of 2005, respectively. All of these C-segment tires were sold by members of the Group other than Vredestein.

The Group believes that the Vredestein Acquisition will help it penetrate the high-margin, growing Russian A-segment market, currently served exclusively by imports, and the growing Russian B-segment market, by giving it access to superior tire technology and sophisticated marketing practices. In the case of the A-segment market, the acquisition also gives the Group access to the well-regarded VREDESTEIN™ brand for use in the Russian market.

In the CIS, the Group sells tires in both the RE market, in which its principal customers are wholesale distributors, and in the OE market, in which its principal customers are automobile manufacturers in Russia. In Europe, the Group sells principally to the RE market, in which its principal customers are retail tire and fast-fit shops and, in the case of its SPACEMASTER™ brand spare tires, to premium vehicle manufacturers. On a pro forma basis, RE revenues accounted for approximately 84% of the Group's tire revenues in 2004 and approximately 82% in the first six months of 2005. On a pro forma basis, OE sales accounted for approximately 16% of the Group's tire revenues in 2004 and 18% in the first six months of 2005.

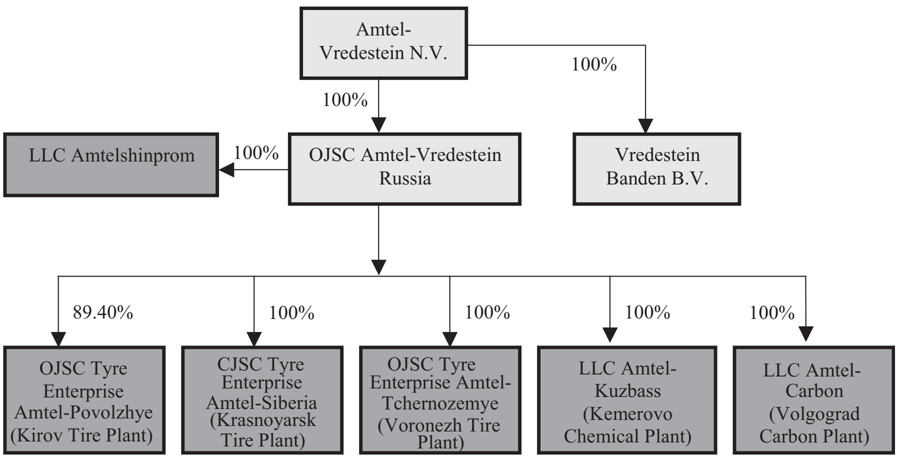
The following table breaks down, for the periods indicated, the Group's percentage revenues by product category, destination of sale and for both the RE and OE markets.

	% Revenues for Year Ended December 31, 2004		% Revenues for Six Months Ended June 30, 2005	
Product/Services	**Historical**	**Pro Forma**	**Historical**	**Pro Forma**
Tires				
Passenger Car Tires				
A-segment	0.0%	29.2%	10.1%	22.4%
B-segment	11.3%	10.7%	25.2%	20.7%
C-segment	24.9%	9.4%	12.0%	9.2%
Total Passenger Car Tires	36.2%	49.3%	47.4%	52.3%
Light Truck Tires				
A-segment	0.0%	2.7%	0.9%	2.1%
B-segment	0.0%	0.0%	0.0%	0.0%
C-segment	15.9%	10.8%	8.3%	6.3%
Total Passenger Car Tires	15.9%	13.6%	9.2%	8.4%
Truck and Bus Tires	24.4%	11.2%	13.4%	10.2%
Agricultural Tires	4.5%	9.9%	11.0%	13.5%
Aircraft Tires	0.8%	0.6%	0.6%	0.4%
Motorcycle Tires	0.2%	0.1%	0.1%	0.0%
Bicycle Tires	1.7%	3.0%	1.7%	2.3%
Total Tires	83.8%	87.7%	83.2%	87.1%
Raw Materials				
Carbon Black	5.7%	4.3%	4.0%	3.0%
Polyamide-6 Products	7.0%	5.3%	5.2%	4.0%
Other (including royalties on the sale of tires)	3.5%	2.7%	7.5%	5.8%
Total Raw Materials and Other	16.2%	12.2%	16.7%	12.8%
Tire Industry Consultancy	0.0%	0.2%	0.1%	0.1%
RE /OE				
Tires				
RE	86.7%	83.6%	83.4%	81.7%
OE	13.3%	16.4%	16.6%	18.3%
Region				
Tires				
CIS	99.2%	51.2%	80.1%	58.4%
Non-CIS	0.8%	48.8%	19.9%	41.6%

THE GROUP

Organizational structure

Amtel has been the Group's top-level holding company since December 31, 2002 and is responsible for the Group's strategic and investment planning. The following diagram is a simplified illustration of the Group's organizational structure.



Evolution of the Group's tire business

In the early and mid-1990s, Mr. Sudhir Gupta held controlling interests in several holding companies that in turn controlled numerous production and trading companies. These production and trading companies supplied spare parts to defense factories undergoing conversion to civilian production, computer equipment to scientific and technical institutes in the fuel and energy sectors, natural rubber to Russian tire and industrial rubber factories and packaging to food companies. In 1997, Mr. Gupta elected to focus on the tire industry, which he believed offered significant growth opportunities in a then unconsolidated business sector in Russia.

In 1997, a holding company controlled by Mr. Gupta acquired a controlling stake in OJSC Krasnoyarsk Tire Plant (a predecessor to Amtel-Siberia). In 1998, a holding company affiliated with Mr. Gupta entered into a joint venture with OJSC Rosava, a state owned company in Ukraine, whereby it acquired a 51% interest in Rosava. In 1999, a holding company affiliated with Mr. Gupta acquired controlling stakes in OJSC Kirov Tire Plant (a predecessor to Amtel-Povolzhye), OJSC Kemerovo Chemical Fiber Plant (a predecessor to Amtel-Kuzbass), OJSC Volgograd Carbon Black Plant (currently Amtel-Carbon). See ''–Operations–Manufacturing facilities.''

In 2001, the holding companies affiliated with Mr. Gupta decided to develop their capabilities in the B-segment of the tire market because Mr. Gupta believed that existing Russian tire manufacturers did not adequately serve this fast-growing, middle market segment. Accordingly, starting in 2001, the Group began investing approximately RUB 4,500 million in modernizing its production lines and increasing capacity, as well as in improving its management and quality control procedures. In 2002, a holding company affiliated with Mr. Gupta purchased OJSC Voronezh Tire Plant (a predecessor to Amtel-Tchernozemye). At the end of that year, Mr. Gupta reorganized his affiliated holding companies into a single holding company, Amtel, which is now the Group's top-level holding company. Mr. Gupta, through Amtel Luxembourg, controls 69.52% of Amtel.

As of December 31, 2004, the Group's production facilities were collectively capable of producing approximately 27 million tires annually, on a pro forma basis. In 2004, the Group sold approximately 21.8 million tires, on a pro forma basis. The Group's share of the overall Russian tire market in 2004 was 13.5%, on a pro forma basis. On a historical basis, in 2004, the Group had revenues of RUB 13,850 million, EBITDA of RUB 1,572 million and net profits of RUB 129 million.

Rosava Disposition

In December 2003, the Company entered into an agreement with UkrSibBank to sell its 51% of the shares in Rosava, the Company's entire direct and indirect holding in Rosava, for a total consideration of RUB 672 million. In addition to the share sale agreement, the Company concluded option agreements with UkrSibBank to buy back the shares for RUB 608 million, which expired on December 31, 2004. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations–Available financial information and basis of presentation–Rosava Disposition.''

Following the expiration of the option, the Company entered into negotiations with UkrSibBank to acquire its interest in Rosava, which had, since 2003, increased from 51% to 76%. In June 2005 the Company announced that it no longer intended to pursue the acquisition of the interest in Rosava. The Company's decision was based on management's belief that the re-acquisition of Rosava, a C-segment tire producer, would be inconsistent with the Company's strategy of focusing on the growing A- and B-segments of the Russian passenger car tire market. See''– Strategy – Improve profitability by focusing on A- and B-segment passenger car tires in Russia.''

Vredestein Acquisition

In April 2005, Amtel, via its subsidiary Amtel B.V., acquired Vredestein, a Dutch premium tire company, for an acquisition price of EUR 199.9 million, including EUR 4.3 million in acquisition costs. Vredestein has production facilities in the Netherlands capable of producing approximately 5 million passenger car and light truck tires annually. In 2004, Vredestein sold 4.6 million passenger car and light truck tires, giving it, in terms of unit sales, a 1.9% share of the European passenger car and light truck tire market and a 3% share of the German passenger car and light truck tire market. In 2004, Vredestein had Dutch GAAP revenues of EUR 230.8 million, EBITDA of EUR 35.3 million and net profits of EUR 14.6 million.

A manufacturer of tires since 1946, Vredestein evolved during the 1990s from a production driven business that targeted cost-conscious consumers into a market-driven business that targeted high-end consumers, a strategy the Group seeks to replicate in Russia. See ''–Strategy.'' Vredestein sells to markets in Western Europe, the

United States and southeast Asia. According to *European Rubber Journal,* at the time of the acquisition, Vredestein was the thirtieth largest tire company in terms of 2003 worldwide revenues.

Giugiaro Design, a division of the Italdesign Giugiaro Group, designs and develops the Group's UHP tire treads, as well as a portfolio of HP summer and winter tires. Giugiaro Design also allows the Group to use the GIUGIARO DESIGN™ brand name in the Group's marketing of these tires. The Group enters into separate agreements for the design of each tire tread, typically with the right to use the brand name for that tire for five to seven years.

Integration of Amtel and Vredestein businesses

The Group is in the process of integrating the Amtel and Vredestein businesses. Since the Vredestein Acquisition, the Group has combined certain management functions, including the appointment of the Executive Officer and the Chief Financial Officer of Vredestein to the Executive Board of the Company. The Group has also consolidated the financial reporting of the two businesses to permit preparation of consolidated IFRS accounts. Additionally in September 2005, the Group began limited production of two VREDESTEIN™ tire sizes under its SNOWTRAC 2™ sub-brand at its Amtel-Povolzhye facility. See ''–Operations–Manufacturing facilities–Tire manufacturing facilities.'' In the same month, the Group launched the VREDESTEIN™ brand in the Russian market. See ''–Marketing, sales and distribution–Passenger car tires–Advertising and public relations.'' Management intends further to integrate Vredestein's business into the Group by undertaking the following steps during 2005 and 2006, except where otherwise indicated:

➤ *Production.* The Group will standardize tire specifications by size and brand, regardless of the place of production, as well as unify tire assembly technology and implement a common quality control system. It also intends to produce 31 VREDESTEIN™ and MALOYA™ tire sizes at its Amtel-Povolzhye facility and 136 VREDESTEIN™ and MALOYA™ tire sizes at its Amtel-Tchernozemye facility, to be implemented between 2006-2008.

➤ *Finance & Information Technology.* The Group will complete the harmonization of financial reporting, budgeting, costing, transfer pricing and information technology.

➤ *Marketing & Sales.* The Group will consolidate Russian and European tire model ranges as well as develop a common pricing and, most importantly, a common branding policy for VREDESTEIN™, MALOYA™ and AMTEL™ brand tires. In the C-segment, the Group's passenger car tires will be branded as NEK.

➤ *R&D.* The Group will head its R&D functions out of its Vredestein facility and continue to operate R&D departments at each Russian plant. The role of the central R&D center will be to coordinate efforts at each of the satellite R&D departments, reduce R&D costs through the elimination of redundant functions, and provide state-of-the-art technical know-how to the individual R&D departments at the Group's Russian plants.

➤ *Purchasing.* The Group will standardize its tire raw material production formulas and testing to conform to Vredestein's requirements, as well as harmonize logistics and suppliers. It also is exploring the feasibility of producing in Russia certain raw materials for use in the production of VREDESTEIN™ brand tires.

➤ *Management.* The Group is integrating Amtel and Vredestein management through the creation of working groups, in which specialized Amtel and Vredestein employees collaborate to manage certain aspects of the Group. At a senior level, these working groups include Strategy; Finance & IT; Production, Raw Materials Supply & R&D; Marketing and Sales; HR and Project Management.

KEY STRENGTHS

Fast growing Pan-European tire company with a focus on Russia

Management believes that the Group is and will continue to be a fast growing pan-European tire company due to its combination of Russian tire production capacity, Western European technology and positioning in the Russian market. As of June 30, 2005, the Group's annual capacity in Russia was approximately 22 million tires, which upon the completion of construction of its Voronezh-II facility will expand to approximately 24.9 million tires, giving it the largest capacity of any tire manufacturer with facilities in Russia. The Group also possesses the technology to produce B- and C-segment tires in its Russian facilities, and is in the process of implementing the technology to produce A-segment tires in these facilities, making it unique among Russian tire manufacturers. This places the Group at a competitive advantage relative to both other Russian tire manufacturers and foreign tire manufacturers. The latter must pay a duty on imported tires, which currently is 20% of the import price but not less than EUR 6.20 per tire. Foreign tire manufacturers must also incur logistical costs to import their tires into Russia, thereby deteriorating the profitability of all but A-segment tires and making the sale of foreign-produced tires in the B- and C-segments unattractive. The Group therefore enjoys reduced competition when selling into the rapidly growing Russian B-segment tire market, resulting in an increased share of this market and significantly above-market growth.

Access to the growing Russian tire market

According to management estimates, in 2004, the aggregate output of the Russian tire market was 60.9 million units, representing a CAGR of 5% since 2000. This growth in volume occurred primarily because of an increase in the size of Russia's vehicle fleet, which in turn occurred primarily because of continued economic growth in Russia. Management expects that as individual wealth continues to increase in Russia, so will the size of the vehicle fleet and the tire market. In addition, management expects wealthier individuals to continue to purchase increasingly expensive foreign built cars that use A- or B-segment tires, contributing to even more rapid growth of the A- and B-segment tire markets.

Due to its Russian manufacturing base and management operations, the Group is positioned to penetrate A- and B-segment tire markets more effectively than its foreign competitors. The Group believes that local manufacturing and management will allow it to anticipate and respond to fluctuations in demand for its tires more rapidly than foreign tire producers both in the OE and RE markets.

Multi-brand tire portfolio covering key Russian passenger car tire segments

The Group has identified passenger car tires as the most profitable and fastest growing part of the tire market. It therefore offers a product portfolio covering all segments of this market. This portfolio consists of the following brands:

➤ *A-segment.* VREDESTEIN™ brand tires designed by Giugiaro Design at the top of the A-segment and VREDESTEIN™ brand tires in the middle of the A-segment.

➤ *B-segment.* AMTEL™ brand tires in the CIS, including AMTEL™ PLANET™ and AMTEL™ NORDMASTER™ sub-brands, and MALOYA™ brand tires in Europe.

➤ *C-segment.* Unbranded Russian-produced passenger car tire models in the CIS, substantially all of which the Group is in the process of consolidating under its new NEK™ brand.

The Group's multi-segment product portfolio enables it to respond to changes in the tire market by shifting its focus within its product range to take advantage of market opportunities as they arise. It also means that the Group's overall financial condition is less susceptible to a deterioration in any particular segment.

Strong positions in the Russian RE and OE markets

The Group has a strong market position in the Russian passenger car tire RE and OE markets. The Group estimates that its aggregate share of these markets in 2004 was 22.1%, of which 8.7% was attributable to Rosava. The Group estimates that the Russian RE market grew at between 3% and 5% more than the European RE market in each year between 2000 and 2004. The Group believes it can leverage its strong position within the Russian RE market to capitalize on the continued growth that it expects in this market.

In the OE market, the Group supplies passenger car tires to OJSC AvtoVAZ (**"AvtoVAZ"**) and LLC RPAS (formerly RusPromAutoSnab, **"RPAS"**), a supplier to JSC Gorky Automotive Works (**"GAZ"**). AvtoVAZ and GAZ are two major Russian automobile manufacturers. The Group also supplies tires for Kia automobiles manufactured in Russia, as well as to General Motors' joint venture with AvtoVAZ for Chevrolet Niva models. The Group is one of the few Russian tire manufacturers to produce OE tires for foreign passenger cars manufactured in Russia and believes it is well positioned to win additional contracts as more foreign OEMs establish vehicle assembly plants in the country.

OE sales tend to affect the domestic RE market because consumers often replace OE tires with RE tires of the same brand. According to market analyst Validata, 20% of Russian consumers replace OE tires with RE tires of the same brand. Therefore, the Group is using its position in the OE market to establish brand recognition and cultivate customer loyalty, both of which are crucial to generating follow-on sales in the more stable and higher-margin RE market. In addition, the Group believes that collaboration with OEMs helps it develop tires that respond to the requirements of automobile manufacturers and to develop innovative tire technologies.

State-of-the-art technology and industry best practices
As a result of the Vredestein Acquisition, the Group gained access to enhanced R&D capabilities and state-of-the-art technology. Vredestein has pioneered or adopted many industry best practices and technologies in the production of tires, including: a modern mixing department capable of producing all complex silica compounds; the most modern tire production equipment available on today's market; a high level of automation of both production processes and equipment, including the world's only fully-automated tire building machines; sophisticated in-house robotic transport; high level of quality systems (ISO 9001, VDA6); high speed testing machines; a modern test fleet of fast cars and SUVs; and access to excellent testing circuits and winter testing grounds.

Modern tire production facilities in Russia with capacity to meet future demand
The Group is the leading tire manufacturer in Russia in terms of production volume. As a result of recent intensive capital investments in the Amtel-Tchernozemye and Amtel-Povolzhye facilities, as well as the addition of the Vredestein facility, the Group has three modern manufacturing facilities with a current aggregate annual capacity of 11.3 million A- and B-segments tires. After the anticipated completion of the Voronezh-II project in the end of 2006, the Group expects Amtel-Tchernozemye's aggregate annual capacity to increase to 14.3 million A- and B-segment tires annually, which will allow it to meet the demand it anticipates for such tires. See ''–Operations–Manufacturing facilities–tire manufacturing facilities.'' Most of the Group's primary competitors either import A- and B-segment tires or manufacture them pursuant to off-take arrangements or, in the case of Michelin and Nokian, have significantly lower Russian domestic production capacity for such tires than does the Group.

Lower manufacturing costs than A- and B-segment competitors
The Group's modern facilities. Amtel-Tchernozemye and Amtel-Povolzhye, enable it to produce A- and B-segment tires in Russia, where, its manufacturing costs are, on average, significantly lower than those of tire producers in the European Union. The Group estimates that manufacturing costs in the tire industry are, on average, 15% lower in Russia than in the European Union. Complementing these Russian production capabilities is the Group's network of off-take arrangements with low-cost agricultural and bicycle tire manufacturers in India, Indonesia and Thailand.

The Group therefore believes that the production costs of A- and B-segment tires that it manufactures and sells in Russia are generally lower than those of its competitors who import such tires for sale in Russia. Additionally, the Group believes that the production costs of the A- and B-segment tires that it will manufacture in Russia for sale in Europe will be generally lower than those of its competitors who manufacture and sell such tires in Europe. Further cost savings achieved through the Group's off-take arrangements help it leverage its cost advantage in these sectors.

Established sales force in Russia and abroad
In Russia, the Group had, as of June 30, 2005, a sales force of approximately 20 employees, comprised of regional managers and sales representatives based in Moscow, St. Petersburg, Krasnoyarsk, Nizhniy Novgorod, Volgograd and Yekaterinburg. These managers and sales representatives sell to wholesale and retail distributors in their respective regions. By the end of 2005, the Group intends to increase its sales force to a total of 60 employees and extend it to other Russian cities, including Bryansk, Chelyabinsk, Yaroslavl, Kazan, Omsk, Novosibirsk, Samara and Voronezh. Of these 60 employees, the Group will hire 20 on a part-time basis during the peak tire sales season, September and October and March and April, to provide additional support.

Outside Russia, the Group has sales subsidiaries in Austria, Belgium, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. As of June 30, 2005, it had approximately 168 sales personnel working in these countries. Each subsidiary is responsible for selling mainly to retail distributors in the country where it is located and is directly responsible for its own budgets, sales, marketing and costs. This system enables the Group to obtain feedback regarding its products from country managers as well from its central marketing department.

Experienced and strong management team
The Group's management team has extensive experience in the Russian and European tire industries and in Russian consumer product and brand-driven industries. See ''Directors and Management.'' The Vredestein Acquisition further complemented Amtel's existing management with a proven team that successfully reoriented Vredestein as a market-driven producer of premium tires.

High growth and profitability

In the two most recent years, the Group has demonstrated high growth and increasing profitability. On an historical basis, the Group's revenues increased from approximately RUB 11,281 million in 2003 to approximately RUB 13,850 million in 2004 or by 22.8%. EBITDA for those periods increased from approximately RUB 1,175 million to approximately RUB 1,572 million or by 33.8%. Due to its position within the growing Russian tire markets and intentions to increase market share in those markets, the Group expects to be able to continue exhibiting levels of strong growth. In addition, as its product mix shifts to a greater proportion of A- and B-segment tires, the Group expects to increase its profitability due to a combination of favorable pricing and low manufacturing costs.

STRATEGY

The Group's objective is to continue to combine Western European tire technology, low-cost manufacturing capacity and active brand management to penetrate the growing A- and B-segments of the Russian passenger car tire market and provide its shareholders with superior profitability. To achieve this objective, the Group's management intends to pursue the strategies set forth below.

Improve profitability by focusing on A- and B-segment passenger car tires in Russia

The Group has identified the A- and B-segments as the most profitable and fastest growing segments within the Russian passenger car tire market, and it believes that Russian consumers will pay a premium for high quality A- and B-segment tires. The Group therefore plans to enhance its profitability by consolidating and expanding its presence in the Russian A- and B-segments. At the same time, the Group plans to decrease its output of low-margin C-segment tires.

The Vredestein Acquisition was a significant step in the Group's efforts to implement this strategy. Vredestein brings a prestigious A-segment brand name to the Group, as well as European management, technology and manufacturing expertise in the A-segment.

Cultivate brand awareness in Russia

The Group plans to stimulate demand for its A- and B-segment passenger car tires by cultivating brand awareness in Russia. To do so, it plans to launch or, in the case of its AMTEL™ brand, continue its ongoing marketing campaigns illustrating the superior performance and quality of these tires to consumers. The Group intends to advertise its VREDESTEIN™ tires designed by Giugiaro Design, which it markets as the first and only ''design'' tires on the market, intensively. The Group believes that design is the unique selling proposition of VREDESTEIN™ brand tires and that it will help establish the previously unknown brand in the Russian tire market.

The Group intends to conduct advertising campaigns through multiple channels, including broadcast and print media, billboards, the internet, trade shows, product launch events and point-of-sale displays. The Group believes that with a targeted advertising campaign for each of its VREDESTEIN™ and AMTEL™ brands, it will be able to gain and maintain market share in the growing A- and B-segments. See ''–Marketing, sales and distribution–Passenger car tires–Advertising and public relations.''

Maximize utilization of its relatively low-cost Russian manufacturing base

The Group intends to supplement its existing production of VREDESTEIN™ and MALOYA™ brand tires in the Netherlands with production of these brands at its state-of-the-art Kirov-II and Voronezh-II facilities, thereby leveraging Russia's comparatively low manufacturing costs. See ''–Operations–Manufacturing facilities–Tire facilities.'' In 2006, it plans to sell approximately 2% of its Russian-produced VREDESTEIN™ brand tires in Russia and export approximately 98% and 100%, respectively, of its Russian-produced VREDESTEIN™ and MALOYA™ brand tires to Europe.

In 2005, the Group began limited production of VREDESTEIN SNOWTRAC 2™ tires at its Kirov-II facility. It intends to begin production of eight additional VREDESTEIN™ and MALOYA™ tire sub-brands at Kirov-II in 2006. Additionally, at the end of 2006, the Group plans to begin production of certain VREDESTEIN™ and MALOYA™ sub-brands at its greenfield Voronezh-II facility. The comparatively low production costs of such tires manufactured at these facilities will enable the Group to increase its profit margins on sales of these sub-brands in Europe. Moreover, the production of VREDESTEIN™ tires in Russia for sale in Russia means that the Group will not be subject to Russian duty on imported tires, which currently is 20% of the import price but not less than EUR 6.20 per tire.

Implement European technology and best practices in Russia
The Group intends to standardize manufacturing processes across all production facilities in Russia by implementing technology and best practices from Vredestein. This implementation will be executed in four stages: transferal of Vredestein technology to Russia, re-evaluation of AMTEL™ tire technology, training of Russian employees and upgrading of quality control in Russia.

The transferal of Vredestein technology to Russia will result in the full utilization of the Group's Kirov II and Voronezh II plants for production of B- and ultimately A-segment tires through the installation of new equipment at Kirov II and the construction of Voronezh II. See ''–Operations–Manufacturing facilities–Tire manufacturing facilities.'' Kirov II is currently in operation and Voronezh II is expected to be completed and become operational in 2006, with full capacity anticipated in 2007. Additionally, the Group's Russian plants are in the process of being reviewed to ensure that AMTEL™ brand tires are produced to the same specification levels as the VREDESTEIN™ brand tires currently produced in Enschede. To operate the new equipment and produce tires in accordance with Vredestein's specifications, Russian employees are in the process of being trained by Vredestein plant managers at Vredestein. Finally, Vredestein's system of quality verification at every stage of the tire manufacturing process will be implemented at the Group's Russian plants. These initiatives are being coordinated by Vredestein management, and implemented at the plant level in Russia by Vredestein managers on long-term assignment.

Continue outsourcing certain production
In the medium term, the Group plans to maintain a modest presence in tire markets outside of its core passenger car tire market. It has elected to do so partially to uphold its reputation as a reliable, consistent supplier and partially to secure a steady cash flow with which to finance its continued expansion in its core passenger car tire market.

The Group intends to outsource more of its production of non-passenger car tires, including truck and bus, agricultural and bicycle tires, to manufacturers in southeast Asia and China pursuant to off-take arrangements. Vredestein already procures the production of agricultural, industrial and bicycle tires in India, Indonesia and Thailand. As part of this strategy, the Group intends to limit in-house production of such tires to technologically complex tires. The Group has already discontinued production of bicycle tires at its Voronezh facility.

The use of off-take arrangements allows the Group to maintain a flexible presence in these ancillary tire markets and to monitor developments in them continuously. As the market for such tires evolves, the Group may reassess this strategy and consider terminating such off-take arrangements and bringing production in-house if circumstances warrant.

Additionally, the Group will continue to outsource production of certain passenger car tires. These arrangements were developed by Vredestein to allow it to continue producing passenger car tires for its customers and expand its customer base while focusing its Enschede plant on Vredestein's most technologically complex tires. The Group intends to continue production of its tires through these off-take arrangements, in addition to incrementally increasing its Russian A- and B-segment passenger tire production.

Continue to rationalize cost structure
As part of its efforts to become a market-driven company and to migrate European tire industry best practices to Russia, the Group periodically conducts a bottom-up review of ways to optimize its cost structure. The Group is currently seeking to optimize its personnel structure, primarily through a controlled reduction in the number of its Russian employees, outsourcing non-production activities and reducing administrative staff. Reductions in the workforce are generally constrained by relevant Russian labor legislation as well as other political and social considerations. For these reasons, the Group manages reductions in the number of personnel it employs gradually and in a controlled manner.

Strengthen logistics and distribution channels in Russia
The Group currently owns and operates one logistics center in the Moscow region. It intends to open six more throughout Russia. These centers will hold stocks of finished products and arrange to ship the finished products to the Group's customers in Russia on an as-demanded basis. This network will greatly enhance the Group's ability to provide a reliable flow of product to its customers.

Additionally, the Group recognizes that tires are a consumer product and that demand for the product lies with the consumer. Accordingly, the Group's greatest opportunity to increase its sales is through direct interaction with, and influence over, the consumer. While Vredestein has historically employed a tactic of selling directly to the mature group of European tire specialists with whom their relationship and history allowed them to position

VREDESTEIN™ brand tires favorably within the retail outlets, no such group of retail outlets or corresponding relationships exists in Russia. Therefore, the Group has decided to pursue a strategy of expanding in the automotive retail outlet business in Russia.

In September 2005, the Group entered into a preliminary agreement to acquire the KOLESO™ retail chain, which has 23 retail outlets in Moscow and an additional ten outlets in the rest of Russia. In September 2005, the Group also signed a preliminary agreement to acquire Rosshina, another retail chain in Moscow, which will add an additional seven shops to the Group's retail distribution network, and it intends to continue identifying and acquiring other retail outlet chains as appropriate opportunities to do so arise. Both acquisitions are anticipated to close by the end of 2005 following receipt of FAS approval.

PRODUCTS AND SERVICES

The Group manufactures or utilizes off-take arrangements to procure a broad range of tires, including: passenger car, light truck, truck and bus, agricultural and bicycle tires. The Group also produces key raw materials used in tire production, including carbon black and polyamide-6 products. Lastly, the Group's Vredestein Consulting division offers tire industry consultancy to tire manufacturers worldwide. The following table sets forth the percentage of revenue that the Group derives from each of its product categories in the periods indicated.

	% Revenues for year ended December 31, 2004		% Revenues for six months ended June 30, 2005	
Category	**Historical**	**Pro Forma**	**Historical**	**Pro Forma**
Tires	83.8%	87.7%	83.2%	87.2%
Raw Materials and Other	16.2%	12.1%	16.7%	12.7%
Tire Industry Consultancy	0.0%	0.2%	0.1%	0.1%

The following table sets forth the percentage of revenue that the Group derives from each of its products and tire consulting services in the periods indicated.

	% Revenues for year ended December 31, 2004		% Revenues for six months ended June 30, 2005	
Product/Services	**Historical**	**Pro forma**	**Historical**	**Pro forma**
Passenger Car Tires	36.2%	49.3%	47.4%	52.3%
Light Truck Tires	15.9%	13.6%	9.2%	8.4%
Truck and Bus Tires	24.4%	11.2%	13.4%	10.2%
Agricultural Tires	4.5%	9.9%	11.0%	13.5%
Aircraft Tires	0.8%	0.6%	0.6%	0.4%
Motorcycle Tires	0.2%	0.1%	0.1%	0.0%
Bicycle Tires	1.7%	3.0%	1.7%	2.3%
Carbon Black	5.7%	4.3%	4.0%	3.0%
Polyamide-6 Products	7.0%	5.3%	5.2%	4.0%
Tire Industry Consultancy	0.0%	0.2%	0.1%	0.1%
Other (including royalties on the sale of tires)	3.5%	2.7%	7.5%	5.8%

Tires

The Group produces over 420 models of passenger car tires, 50 models of light truck tires, 70 models of truck and bus tires, 240 models of agricultural vehicle tires, 25 models of aircraft tires and 50 models of motorcycle, bicycle and miscellaneous tires. Currently, the Group is the only Russian manufacturer of extra-large size tires, such as those used on heavy trucks, agricultural vehicles, and aircraft. On a pro forma basis, tire sales accounted for approximately 88% of the Group's revenues in 2004 and 87% in the first six months of 2005.

The following table sets forth the percentage of revenue that the Group derives from tire sales in each of its principal geographic markets in the periods indicated.

Region	% Revenues for year ended December 31, 2004		% Revenues for six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Tires				
CIS	99.2%	51.2%	80.1%	58.4%
Non-CIS	0.8%	48.8%	19.9%	41.6%

Passenger car tires

The Group's aggregate sales volume for passenger car tires was approximately 9.9 million in 2004 and 5.6 million in the first six months of 2005 on a pro forma basis, of which approximately 4.3 million and 1.9 million, respectively, were produced by Vredestein. The Group's aggregate sales volume for passenger car tires was approximately 10.7 million in 2004 on an historical basis, of which approximately 5.2 million were produced and sold by Rosava. On a pro forma basis, passenger car tires accounted for approximately 56.3% of the Group's tire revenues in 2004 and 60% in the first six months of 2005. On a pro forma basis, passenger car tires accounted for approximately 50.2% of the Group's tire production volume in 2004 and 52.6% in the first six months of 2005.

The following table sets forth the Group's unit sales and revenues for passenger car tires in the periods indicated.

Statistic	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
A-segment				
UHP tires				
Sales volume (thousand units)	0	122	29	90
Revenues (RUB millions)	0	341	84	256
HP tires				
Sales volume (thousand units)	0	1,128	219	627
Revenues (RUB millions)	0	1,821	306	925
SPACEMASTER™ tires				
Sales volume (thousand units)	0	225	45	113
Revenues (RUB millions)	0	663	132	337
Other A-segment tires				
Sales volume (thousand units)	0	2,410	265	840
Revenues (RUB millions)	0	2,567	286	828
Total A-segment tires				
Sales volume (thousand units)	0	3,885	558	1,670
Revenues (RUB millions)	0	5,392	808	2,346
B-segment				
Sales volume (thousand units)	1,952	2,385	2,154	2,298
Revenues (RUB millions)	1,561	1,975	2,016	2,160
C-segment				
Sales volume (thousand units)	8,810	3,606	1,588	1,588
Revenues (RUB millions)	3,451	1,729	960	960
Aggregate passenger car tires				
Sales volume (thousand units)	10,762	9,876	4,300	5,556
Revenues (RUB millions)	5,012	9,096	3,784	5,466

The following table sets forth the percentage of total revenues derived by the Group from passenger car tire sales in the A-segment, B-segment and C-segment for the periods indicated.

Passenger Car Tire Segment	% Revenues for year ended December 31, 2004		% Revenues for six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
A-segment	0.0%	59.3%	21.4%	42.9%
B-segment	31.1%	21.7%	53.3%	39.5%
C-segment	68.9%	19.0%	25.4%	17.6%

A-segment tires

The Group produces UHP and HP tires (see ''Industry Overview''), SPACEMASTER™ tires and other A-segment tires. The Group did not offer A-segment tires until the Vredestein Acquisition. The Group's aggregate sales volume for A-segment tires was approximately 3.9 million in 2004 and 1.7 million in the first six months of 2005 on a pro forma basis, all of which were produced by Vredestein. On a pro forma basis, A-segment passenger car tires accounted for approximately 33% of the Group's tire revenues in 2004 and 26% in the first six months of 2005. On a pro forma basis, A-segment passenger car tires accounted for approximately 19% of the Group's tire production volume in 2004 and 18% in the first six months of 2005.

UHP tires

The Group sells UHP tires for summer and winter use. Giugiaro Design designs and develops the Group's UHP tire treads. The Group's aggregate sales volume for UHP tires was approximately 122,000 in 2004 and 90,000 in the first six months of 2005 on a pro forma basis, all of which were produced by Vredestein. On a pro forma basis, UHP tires accounted for approximately 2.1% of the Group's tire revenues in 2004 and 2.8% in the first six months of 2005. On a pro forma basis, UHP tires accounted for approximately 0.7% of the Group's tire production volume in 2004 and 1.2% in the first six months of 2005.

HP tires

The Group sells HP tires for summer, winter and all season use under its VREDESTEIN™ brand. Key VREDESTEIN™ HP tire sub-brands include HI-TRAC, T-TRAC, SPORTRAC (summer tires); WINTRAC and ICETRAC (each winter tires); and QUATRAC (all-season tires).

Before 2005, the Group manufactured all its HP tires at its Enschede facility in the Netherlands. In September 2005, the Group supplemented its existing production of VREDESTEIN™ brand HP tires in the Netherlands with production of SNOWTRAC 2™ tires, a VREDESTEIN™sub-brand, at its Kirov-II facility in Russia. The Group intends further to supplement its existing production of VREDESTEIN™ brand tires in the Netherlands with production of COMTRAC ICE™, COMTRAC SUMMER™, COMTRAC WINTER™, HI-TRAC™, SNOWTRAC™, SNOWTRAC 3™, and SPORTRAC™, each VREDESTEIN™ sub-brands, at its Voronezh-II facility in Russia. The Group intends to sell a portion of this supplemental production in Russia and a portion in Europe. See ''–Operations–Manufacturing facilities–Tire manufacturing facilities.''

The Group's aggregate sales volume for HP tires was approximately 1,128,000 in 2004 and 627,000 in the first six months of 2005 on a pro forma basis, all of which were produced by Vredestein. On a pro forma basis, HP tires accounted for approximately 11.3% of the Group's tire revenues in 2004 and 10.1% in the first six months of 2005. On a pro forma basis, HP tires accounted for approximately 5.5% of the Group's tire production volume in 2004 and 6.9% in the first six months of 2005.

SPACEMASTER™ tires

The Group's SPACEMASTER™ brand tire, manufactured in the Netherlands by Vredestein, is a specially-designed spare tire approximately 60% smaller than conventional spare tires. SPACEMASTER™ tires are fitted as standard spare tires in select models of Alfa Romeo, Aston Martin, Audi, Maserati, Mercedes, Porsche and Volkswagen passenger cars.

The Group's aggregate sales volume for SPACEMASTER™ tires was approximately 225,000 in 2004 and 113,000 in the first six months of 2005 on a pro forma basis, all of which were produced by Vredestein. On a pro forma basis, SPACEMASTER™ tires accounted for approximately 4.1% of the Group's tire revenues in 2004 and 3.7% in the first six months of 2005. On a pro forma basis, SPACEMASTER™ tires accounted for approximately 1.1% of the Group's tire production volume in 2004 and 0.9% in the first six months of 2005.

B-segment tires
The Group sells B-segment tires for summer and winter use under the AMTEL™ brand. Key AMTEL™ sub-brands are AMTEL™ PLANET™ for summer tires and AMTEL™ NORDMASTER™ for winter tires. For the foreseeable future, the Group does not intend to market its AMTEL™ brand aggressively outside the CIS.

In addition, Vredestein manufactures B-segment tires under the MALOYA™ brand. Key MALOYA™ sub-brands include CRONO™ and CRESTA™. In the short- to medium-term, the Group intends to market its MALOYA™ brand primarily in Europe.

Currently, the Group manufactures all MALOYA™ brand tires at its Enschede facility in the Netherlands. Beginning in 2006, the Group plans to supplement its existing production of MALOYA™ brand tires in the Netherlands with production of CRONO™ and CRESTA™, MALOYA™ sub-brands, at its Kirov-II facility in Russia. By the end of 2006, the Group intends further to supplement its production of MALOYA™ brand tires with the production of CRESTA 220™, CRESTA 230™, CRONO™, FUTURA PRIMATO 2™, FUTURA SPORT™, FUTURA SPORT 2™, QUADRIS™ and QUADRIS ICE™, each MALOYA™ sub-brands, at its Voronezh-II facility in Russia. The Group intends to sell this supplemental production entirely in Europe. See ''–Operations–Manufacturing facilities–Tire manufacturing facilities.''

The Group's aggregate sales volume for B-segment tires was approximately 2.4 million in 2004 and 2.3 million in the first six months of 2005 on a pro forma basis, of which approximately 433,000 and 225,000, respectively, were produced by Vredestein. The Group's aggregate sales volume for B-segment tires was approximately 1.9 million in 2004 on an historical basis, none of which was produced by Rosava. On a pro forma basis, B-segment passenger car tires accounted for approximately 12.2% of the Group's tire revenues in 2004 and 23.7% in the first six months of 2005. On a pro forma basis, B-segment passenger car tires accounted for approximately 12.3% of the Group's tire production volume in 2004 and 19.9% in the first six months of 2005.

C-segment tires
The Group sells unbranded C-segment passenger car tires for summer and winter use in the OE and RE segments in Russia. The Group anticipates consolidating approximately 90% of its C-segment passenger car tire models under a single umbrella brand, NEK™, by the end of 2006.

The Group's aggregate sales volume for C-segment tires was approximately 3.6 million in 2004 and 1.6 million in the first six months of 2005 on a pro forma basis, none of which was produced by Vredestein. The Group's aggregate sales volume for C-segment tires was approximately 8.8 million in 2004 on an historical basis, of which approximately 5.2 million were produced and sold by Rosava. On a pro forma basis, C-segment passenger car tires accounted for approximately 10.7% of the Group's tire revenues in 2004 and 10.5% in the first six months of 2005.

On a pro forma basis, C-segment passenger car tires accounted for approximately 18.5% of the Group's tire production volume in 2004 and 15.3% in the first six months of 2005.

Light truck tires
Light trucks generally have a load capacity of up to 1.5 tons and generally fit wheels with a rim diameter of 16 to 20 inches.

The Group sells light truck tires under its A-segment VREDESTEIN™ brand in Europe and as C-segment unbranded tires in the CIS. It anticipates consolidating its C-segment light truck tire brands in the CIS under one umbrella brand, COBRA™, by the end of 2006.

The Group's aggregate sales volume for A-segment light truck tires was approximately 291,000 units in 2004 and 123,000 units in the first six months of 2005 on a pro forma basis, all of which were sold by Vredestein. On a pro forma basis, A-segment light truck tires accounted for approximately 3.1% of the Group's tire revenues in 2004 and 2.4% in the first six months of 2005. On a pro forma basis, A-segment light truck tires accounted for approximately 1.5% of the Group's tire production volume in 2004 and 1.1% in the first six months of 2005.

The Group does not offer B-segment light truck tires.

The Group's aggregate sales volume for C-segment light truck tires was approximately 1.6 million units in 2004 and 774,000 units in the first six months of 2005 on a pro forma basis, none of which was sold by Vredestein. The Group's aggregate sales volume for C-segment light truck tires was approximately 1.8 million units in 2004 on an historical basis, of which approximately 147,000 were produced by Rosava. On a pro forma basis, C-segment light truck tires accounted for approximately 12.4% of the Group's tire revenues in 2004 and approximately 7.3% in the first six months of 2005. On a pro forma basis, C-segment light truck tires accounted for approximately 8.3% of the Group's tire production volume in 2004 and 8.6% in the first six months of 2005.

The following table sets forth the Group's sales volume and revenues for light truck tires in the periods indicated:

Segment	Year ended December 31, 2004 Historical	Year ended December 31, 2004 Pro forma	Six months ended June 30, 2005 Historical	Six months ended June 30, 2005 Pro forma
A-segment				
Sales volume (thousand units)	0	291	39	123
Revenues (RUB millions)	0	505	70	219
B-segment				
Sales volume (thousand units)	0	0	0	0
Revenues (RUB millions)	0	0	0	0
C-segment				
Sales volume (thousand units)	1,786	1,639	774	774
Revenues (RUB millions)	2,203	1,997	662	662
Aggregate light truck tires				
Sales volume (thousand units)	1,786	1,930	813	897
Revenues (RUB millions)	2,203	2,502	732	881

Truck and bus tires

Trucks and buses generally weigh five tons or more. Truck and bus tires generally fit wheels with a rim diameter of 16 to 25 inches and higher. The Group sells unbranded truck and bus tires in the CIS.

The Group's aggregate sales volume for truck and bus tires was approximately 822,000 in 2004 and 408,000 in the first six months of 2005 on a pro forma basis, none of which was produced by Vredestein. The Group's aggregate sales volume for truck and bus tires was approximately 1.1 million in 2004 on an historical basis, of which approximately 278,000 were produced and sold by Rosava. On a pro forma basis, truck and bus tires accounted for approximately 12.7% of the Group's tire revenues in 2004 and 11.7% in the first six months of 2005. On a pro forma basis, truck and bus tires accounted for approximately 4.3% of the Group's tire production volume in 2004 and 3.5% in the first six months of 2005. The following table sets forth the Group's unit sales and revenues for truck and bus tires in the periods indicated:

Truck and bus tires	Year ended December 31, 2004 Historical	Year ended December 31, 2004 Pro forma	Six months ended June 30, 2005 Historical	Six months ended June 30, 2005 Pro forma
Sales volume (thousand units)	1,100	822	408	408
Revenues (RUB millions)	3,386	2,056	1,067	1,067

Agricultural tires

Agricultural tires are used on heavy agricultural vehicles, farm machinery and earthmovers. These tires generally fit wheels with a rim diameter of 10 to 51 inches. The Group currently sells unbranded agricultural tires in Russia and under its VREDESTEIN™ brand in Europe. The Group intends to reduce its production of low-margin diagonal agricultural tires, of which it is the only Russian manufacturer, and instead increase sales of radial agricultural tires produced in India, where it currently has off-take arrangements to produce 14 tire sizes.

The Group's aggregate sales volume for agricultural tires was approximately 1,164,000 in 2004 and 734,000 in the first six months of 2005 on a pro forma basis, of which approximately 838,000 and 481,000, respectively, were produced by Vredestein and through off-take arrangements. The Group's aggregate sales volume for agricultural tires was approximately 368,000 in 2004 on an historical basis, of which approximately 42,000 were produced and sold by Rosava. On a pro forma basis, agricultural tires accounted for approximately 11.2% of the Group's tire revenues in 2004 and 15.5% in the first six months of 2005 On a pro forma basis, agricultural tires accounted for approximately 1.8% of the Group's tire production volume in 2004 and 1.8% in the first six months of 2005. The following table sets forth the Group's unit sales and revenues for agricultural tires in the periods indicated:

Agricultural tires	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Sales volume (thousand units)	368.1	1,164.0	461.8	733.8
Revenues (RUB millions)	624.0	1,816.6	882.0	1,413.0

Aircraft tires
The Group sells unbranded civilian and military aircraft tires in Russia.

The Group's aggregate sales volume for aircraft tires was approximately 28,000 in 2004 and 8,700 in the first six months of 2005 on a pro forma basis, none of which was produced by Vredestein. The Group's aggregate sales volume for aircraft tires was approximately 28,000 in 2004 on an historical basis, none of which were produced and sold by Rosava. On a pro forma basis, aircraft tires accounted for approximately 0.7% of the Group's tire revenues in 2004 and 0.5% in the first six months of 2005. On a pro forma basis, aircraft tires accounted for approximately 0.14% of the Group's tire production volume in 2004 and 0.08% in the first six months of 2005. The following table sets forth the Group's unit sales and revenues for aircraft tires in the periods indicated:

Aircraft tires	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Sales volume (thousand units)	28	28	8.7	8.7
Revenues (RUB millions)	115	115	44	44

Motorcycle tires
The Group sells unbranded motorcycle tires in Russia. In 2004, the Group reduced its sales volume for motorcycle tires due to their increasingly low margins.

The Group's aggregate sales volume for motorcycle tires was approximately 87,000 in 2004 and 24,500 in the first six months of 2005 on a pro forma basis, none of which was produced by Vredestein. The Group's aggregate sales volume for motorcycle tires was approximately 87,000 in 2004 on an historical basis, none of which was produced by Rosava. On a pro forma basis, motorcycle tires accounted for approximately 0.1% of the Group's tire revenues in 2004 and 0.1% in the first six months of 2005. On a pro forma basis, motorcycle tires accounted for approximately 0.42% of the Group's tire production volume in 2004 and 0.34% in the first six months of 2005. The following table sets forth the Group's unit sales and revenues for motorcycle tires in the periods indicated:

Motorcycle tires	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Sales volume (thousand units)	87	87	24.5	24.5
Revenues (RUB millions)	24	24	5	5

Bicycle tires
The Group procures bicycle tires and tubes through off-take arrangements, which it distributes in Europe under the VREDESTEIN™ brand. In 2005, the Group discontinued its production of bicycle tires in Russia due to their increasingly low margins.

The Group's aggregate sales volume for bicycle tires was approximately 7.8 million in 2004 and 2.5 million in the first six months of 2005 on a pro forma basis, of which approximately 1.5 million and 0.7 million, respectively, were produced for Vredestein pursuant to off-take arrangements. The Group's aggregate sales volume for bicycle tires was approximately 6.4 million in 2004 on an historical basis, none of which was produced and sold by Rosava. On a pro forma basis, bicycle tires and tubes accounted for approximately 3.4% of the Group's tire revenues in 2004 and 2.6% in the first six months of 2005. On a pro forma basis, bicycle tires accounted for approximately 33.4% of the Group's tire production volume in 2004 and 31.9% in the first six months of 2005. The following table sets forth the Group's unit sales for bicycle tires and sales revenues for bicycle tires and tubes in the periods indicated:

Bicycle tires/tubes	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Sales volume (thousand units)	6,389	7,843	2,116	2,517
Revenues (RUB millions)	242	553.1	134	239

Raw materials

The Group produces carbon black products and polyamide-6 products for its own consumption and for sale to third parties, primarily tire producers. The Group consumes approximately 35% of its carbon black output and 50% of its polyamide-6 cord output in its production of tires. On a pro forma basis, raw materials sales accounted for approximately 9.5% of the Group's revenues in 2004 and 7% in the first six months of 2005.

Carbon black products

Carbon black is a generic term for the family of colloidal carbons which are made by the partial combustion and/or thermal cracking of natural gas, oil, or another hydrocarbon. Carbon blacks are widely used as fillers and stabilizers and to impart resistance to ultraviolet rays. Carbon blacks are divided into three grades, high active, active and low active, and each grade has a different application. High active grades are applied to the external part of the tire, where strength and wear resistance are required. Active grades are applied to the internal part of the tire, and low active grades are applied to the tire's inner tube.

The Group manufactures 19 grades of carbon black for tire and technical rubber production, including grades N220, N375 and P-245 high active carbon, grades N330, N339, N326, P-234 and P-324 active carbon, and grades N550, N539, N650 and P-514 low active carbon. The Group produces all of its carbon black at its Volgograd facility.

The Group's aggregate sales volume for carbon black products was approximately 68,000 tons in 2004 and 27,000 tons in the first six months of 2005 on an historical basis. On a pro forma basis, carbon black products accounted for approximately 4.3% of the Group's total revenues in 2004 and 3% in the first six months of 2005. The following table sets forth the Group's sales volume and revenues for carbon black products in the periods indicated:

Carbon Black Products	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro forma	Historical	Pro forma
Sales volume (tons)	67,711	67,711	26,732	26,732
Revenues (RUB millions)	787	787	318	318

Polyamide-6 (nylon) products

According to the Russian Institute for Synthetic Fiber Research (**"VNIISV"**), the Group is Russia's leading producer of polyamide-6 (nylon) cord fabric in terms of volume. Nylon yarns are widely used to manufacture nets and technical fabrics in the fishing and rubber industries, and nylon textile yarns are widely used in the production of consumer goods. The Group uses nylon cord fabric in the production of tire carcasses. The Group also sells nylon cord fabric in the CIS and beginning in 2004 began supplying polyamide-6 chips to companies in China.

The Group's aggregate sales volume for polyamide-6 yarns, chips and cord was 7,261 tons, 5,608 tons and 6,769 thousand meters, respectively, in 2004 and 2,955 tons, 1,339 tons and 1,950 thousand meters, respectively, in the first six months of 2005 on an historical basis. On a pro forma basis, polyamide-6 products accounted for approximately 5.3% of the Group's total revenues in 2004 and 4% in the first six months of

2005. The following table sets forth the Group's sales volume and revenues for polyamide-6 products in the periods indicated:

Polyamide-6 products	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro Forma	Historical	Pro Forma
Polymide-6 Yarns sales volume (tons)	7,261	7,261	2,955	2,955
Polymide-6 Chips sales volume (tons)	5,608	5,608	1,339	1,339
Polymide-6 Cord sales volume (thousand meters)	6,769	6,769	1,950	1,950
Sales revenues (RUB millions)	968	968	416	416

Tire industry consultancy

Vredestein's consulting division, Vredestein Consulting, provides consultancy services to tire manufacturers worldwide. These services include providing tire technology-related advice, management consulting, and training, as well as implementation of Vredestein Consulting's policy recommendations. Vredestein Consulting also establishes and manages the Group's off-take arrangements with tire manufacturers in Asia.

Vredestein Consulting accounted for approximately 0.2% of the Group's revenues in 2004 and less than 0.1% in the first six months of 2005 on a pro forma basis. The following table sets forth the Group's revenues from Vredestein Consulting for the periods indicated.

Consulting services	Year ended December 31, 2004		Six months ended June 30, 2005	
	Historical	Pro Forma	Historical	Pro Forma
Revenues (RUB millions)	0	30.6	6	8

MARKETING, SALES AND DISTRIBUTION

Marketing, brand positioning and development

The Group conducts marketing and advertising campaigns in each of its principal product categories. It also engages independent marketing consultants in Russia and Europe to conduct market research and to assess the results of its marketing strategy, including CJSC Business Analytica-Retail Audit, LLC Comcon-Media and CJSC Sociological Agency Validata.

Passenger car tires

Brand positioning

The Group's tire portfolio covers the A-, B- and C-segments of the passenger car tire market in the CIS and Europe. This portfolio consists of the following brands:

➤ *A-segment.* VREDESTEIN™ brand tires designed by Giugiaro Design at the top of the A-segment and VREDESTEIN™ brand tires in the middle of the A-segment.

➤ *B-segment.* AMTEL™ brand tires in the CIS, including AMTEL™ PLANET™ and AMTEL™ NORDMASTER™ sub-brands, and MALOYA™ brand tires in Europe. The Group does not intend to offer both the AMTEL™ and MALOYA™ brands in any one geographic market.

➤ *C-segment.* By 2006, the Group intends to rebrand 90% of its unbranded C-segment passenger car tire models and light truck tire models under the NEK™ brand and COBRA™ brand, respectively. The remainder of the group's C-segment tires will remain unbranded.

The following table sets forth the relative position of each of the Group's brands in the A-, B- and C-segments.

Segment	Sub-segment	CIS	Europe
A	Top	VREDESTEIN™	VREDESTEIN™ designed by Giugiaro Design™
	Middle		VREDESTEIN™
	Low		
B	Top		
	Middle		MALOYA™
	Low	AMTEL™	
C	Top	COBRA™, NEK™	
	Middle	Unbranded	
	Low		

The Group intends to maximize its market share using a well-balanced multi-brand portfolio, competitive pricing and advertising, supported by skilled sales representatives in all of its markets. The Group intends to advertise its VREDESTEIN™ tires designed by Giugiaro Design, which it markets as the first and only ''design'' tires on the market, intensively. The Group believes that design is the unique selling proposition of VREDESTEIN™ brand tires and that it will help establish the previously unknown brand in the Russian tire market.

Advertising and public relations
The Group launched intensive advertising campaigns in winter 2003-04 and summer 2004-05 to promote its AMTEL™ brand in Russia. During these campaigns, the Group ran a series of 15-second and 30-second nationally televised commercials and placed print advertisements in leading industry magazines. Supporting these advertising campaigns was an image building public relations campaign designed to promote AMTEL™ as a high-quality, value-for-the money tire brand, which included participating in road tests conducted by automotive journals. In addition to these advertising campaigns, aimed at consumers, the Group also conducted an advertising campaign aimed at retail distributors and their sales staff to educate them about AMTEL™ tires and to encourage them to recommend the brand.

In August 2005, the Group launched its first advertising campaign to promote its VREDESTEIN™ brand in Russia. The campaign consisted of print advertisements in consumer and trade magazines, as well as radio, outdoor and internet media advertising, and was aimed at premium segment consumers, the VREDESTEIN™ brand's target audience. The Group also promoted the VREDESTEIN™ brand at exclusive events, which included co-branding arrangements with BMW and the Millionaire Fair, in order to associate the brand with an image of luxury, technology, style and quality. Outside Russia, the Group will continue to advertise the VREDESTEIN™ brand in consumer automotive magazines and trade magazines.

The Group has hired Shared Value Ltd and R.I.M. Porter Novelli LLC, each major public relations firms, to assist with this marketing campaign and to help craft its brand image. In 2004, the Group adopted a new slogan, THE NEW QUALITY OF MOTION, to reflect its efforts to reposition itself as a market-driven premium tire producer and supplier. In addition, the Group has adapted the slogan developed for the VREDESTEIN™ brand in Europe, DESIGNED TO PROTECT YOU, for use in Russian market in 2005.

Other tires
The Group positions its bicycle and agricultural tires at the top end of their respective markets. Truck and bus, aircraft, motorcycle and Russian-produced agricultural tires are positioned at the low end of their respective markets. The Group markets these tires primarily through trade exhibitions and conferences, as well through business-to-business promotion and point-of-sale advertising. The Group also participates in major industry exhibitions.

Raw materials
The Group markets its carbon black and polyamide-6 products in the Russian market primarily through trade exhibitions and conferences, as well through business-to-business promotions. In 2005, the Group also participated or intends to participate in several major industry exhibitions in Russia including the Millionaire Fair, the Motor Show, Shiny, RTI i Kauchuki, Khimiya-2005 and Tekstillegprom.

The Group also organizes and sponsors its own annual conference in Kemerovo (Russia) to introduce new products and innovations. Invitees include representatives from major tire plants and other automotive companies active in the CIS market.

Sales and distribution

Sales force

In Russia, the Group had, as of June 30, 2005, a sales force of approximately 20 employees, comprised of regional managers and sales representatives based in Moscow, St. Petersburg, Krasnoyarsk, Nizhniy Novgorod, Volgograd and Yekaterinburg. These managers and sales representatives sell to wholesale and retail distributors in their respective regions. By the end of 2005, the Group intends to increase its sales force to a total of 60 employees and extend it to other Russian cities, including Bryansk, Chelyabinsk, Yaroslavl, Kazan, Omsk, Novosibirsk, Samara and Voronezh. Of these 60 employees, the Group will hire 20 on a part-time basis during the peak tire sales season, September and October and March and April, to provide additional support.

Outside Russia, the Group has sales subsidiaries in Austria, Belgium, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. As of June 30, 2005, it had approximately 168 sales personnel working in these countries. Under the supervision of the Group's Marketing and Sales Director, each subsidiary is responsible for selling mainly to retail distributors in the country where it is located and is directly responsible for its own budgets, sales, marketing and costs. This system enables the Group to obtain feedback regarding its products from country managers as well from its central marketing department.

Retail distribution network

In September 2005, the Group entered into a preliminary agreement to acquire the KOLESO™ retail chain, which has 23 retail outlets in Moscow and an additional ten outlets in the rest of Russia. In September 2005, the Group has also signed a preliminary agreement to acquire Rosshina, another retail chain in Moscow, which will add an additional seven shops to the Group's retail distribution network, and it intends to continue identifying and acquiring other retail outlet chains as appropriate opportunities to do so arise. Both acquisitions are anticipated to close by the end of 2005 following receipt of FAS approval.

Outside Russia, the Group sells tires through its sales subsidiaries either directly to tire specialists or indirectly to car dealerships through wholesalers, depending on the customs and practices of the relevant country. For example, in France, department stores account for a large portion of tire sales; in Germany, car dealerships play a more active role; and in Scandinavia, a large part of the Group's tires are sold at gasoline stations.

CUSTOMERS

Tires

RE market

RE sales accounted for approximately 84% of the Group's total tire revenues in 2004 and 82% in the first six months of 2005, in each case on a pro forma basis. The Group's RE business, both in Russia and elsewhere, has a broad customer base. In 2004, the Group's top five RE customers accounted for less than 10% of the Group's tire revenues on a pro forma basis. The Group sells into the RE market primarily through wholesale distributors. See ''–Marketing, sales and distribution–Sales and distribution–Distribution network.''

OE market

In the CIS OE market, the Group supplies tires to major Russian vehicle manufacturers, including RPAS and AvtoVAZ, its two largest customers. The Group also supplies tires for Kia automobiles manufactured in Russia, as well as to General Motors' joint venture with AvtoVAZ for Chevrolet Niva models. Vredestein sells SPACEMASTER™ tires to Alfa Romeo, Aston Martin, Audi, Maserati, Mercedes, Porsche and Volkswagen. With the exception of these sales, the Group sells tires exclusively in the RE market outside Russia.

OE sales accounted for approximately 16% of the Group's tire revenues in 2004 and 18% in the first six months of 2005, in each case on a pro forma basis. In 2004, sales to the Group's two largest customers accounted for approximately 6% of the Group's tire revenues and approximately 36% of the Group's OE tire revenues, in each case on a pro forma basis.

Raw materials

Carbon black products

The Group consumes approximately 35% of its carbon black output in its production of tires. The Group also sells carbon black to third parties, primarily tire producers, in Russia and elsewhere. The Group's largest third party carbon black customers are Sibur, Pirelli (through a European intermediary) and Konimpex Ltd. (Poland), which accounted for approximately 34%, 7% and 12%, respectively, of the Group's carbon black product revenues in 2004 and 53%, 10% and 12%, respectively, in the first six months of 2005, in each case on a pro forma basis.

Polyamide-6 products

The Group consumes approximately 50% of its polyamide-6 cord output in its production of tires. The Group also sells polyamide-6 products to third parties, primarily tire producers, in Russia. The Group's largest third party polyamide-6 customers are OJSC Rezinotekh, Gain Success International Trading Ltd. and ASHK (Barnaul Tire Plant), which accounted for approximately 15%, 5% and 6%, respectively, of the Group's polyamide-6 product revenues in 2004 and 23%, 35% and 14%, respectively, in the first six months of 2005, in each case on a pro forma basis.

COMPETITION

Tire market

CIS tire market

The following table sets forth the Group's major domestic and foreign competitors in the Russian passenger car market, as categorized by segment:

Manufacturer	A-segment	B-segment	C-segment
Key foreign manufacturers			
Continental	x	x	
Michelin	x	x	
Goodyear	x	x	
Bridgestone	x	x	
Nokian	x		
Pirelli	x		
CIS manufacturers			
Sibur		x	x
Nizhnekamskshina		x	x
Rosava			x
Moscow Tire Plant			x
Barnaul Tire Plant			x
Petroshina			x
Dnieproshina			x
Belshina			x
Shymkent Tire Plant			x

A- and B-segments of the CIS passenger car tire market

The Group's primary competitors in the Russian passenger car tire market, listed in descending order by approximate market share, are Continental, Michelin, Goodyear, Bridgestone, Nokian and Pirelli. These competitors comprise substantially all of the A-segment tire market and a significant part of the B-segment tire market. Generally, these tire producers benefit from high levels of brand awareness and aggressively market their products. To the extent that each manufacturer imports tires into the Russian market, it is subject to a duty equal to the 20% of the import price but not less than EUR 6.20 per tire. The Group estimates that in 2004 these competitors collectively accounted for over 25% of unit sales in the Russian passenger car tire market, whereas the Group accounted for 13.4%.

➤ *Continental.* Continental sells A-segment CONTINENTAL™ brand tires and B-segment BARUM™ and GISLAVED™ brand tires in Russia. In 2003, Continental formed a joint venture with Moscow Tire Plant, in which Continental agreed to invest USD 29.5 million to install new equipment at the plant. The joint venture was unsuccessful and ultimately terminated in 2004. Continental currently imports its tires to the Russian market from abroad. The Group estimates that Continental's passenger car tire market share was approximately 6% in terms of unit sales in 2004.

- *Michelin.* Michelin produces A-segment MICHELIN™ brand tires and B-segment KLEBER™ brand tires. In 2004, Michelin commissioned the construction of a large production facility in Davidovo (Moscow region) at a former OJSC KamAZ production facility. The capacity of the Davidovo facility will reportedly be four million tires per year. Michelin plans to source raw materials domestically. The Group estimates that Michelin's passenger car tire market share was approximately 5.1% in terms of unit sales in 2004.

- *Goodyear.* Goodyear produces A-segment GOODYEAR™ brand tires. In addition, Goodyear previously procured production of MEDEO™ brand B-segment tires at Sibur's Yaroslavl facility pursuant to an off-take agreement, but it terminated this arrangement in 2004. The company currently imports A- and B-segment tires to the Russian market from abroad. The Group estimates that Goodyear's passenger car tire market share was approximately 4.8% in terms of unit sales in 2004.

- *Bridgestone.* Bridgestone procures production of its FORTIO™ brand B-segment tires at the Group's Voronezh-I facility pursuant to an off-take agreement. Bridgestone imports the remainder of its tires from abroad. The Group estimates that Bridgestone's passenger car tire market share was approximately 4.1% in terms of unit sales in 2004.

- *Nokian.* Nokian produces A-segment tires only; most of its sales in Russia are of A-segment winter tires. In Summer 2005, Nokian completed construction of a production facility in the St. Petersburg region. The capacity of the St. Petersburg facility reportedly will reach four million tires by 2007. The Group estimates that Nokian's passenger car tire market share was approximately 2.7% in terms of unit sales in 2004.

- *Pirelli.* Pirelli currently imports A-segment tires to the Russia market. The Group estimates that Pirelli's passenger car tire market share was approximately 1.9% in terms of sales in 2004.

C-segment of the CIS passenger car tire market

Currently, Russia's two largest tire manufacturers, Sibur and Nizhnekamskshina, do not manufacture A-segment tires. Sibur produces small quantities of B-segment tires under its TUNGA™ and CORDIANT™ brands, whereas Nizhnekamskshina produces small quantities of B-segment tires under its KAMA-EURO™ brand. The Group estimates that in 2004 these competitors collectively accounted for approximately 31% of unit sales in the Russian passenger car tire market.

- *Sibur.* A petrochemical subsidiary of OJSC Gazprom, Russia's largest company, Sibur produces small quantities of B-segment CORDIANT™ and TUNGA™ brand tires and larger quantities of unbranded C-segment tires. Sibur, through a subsidiary, operates four large plants: OJSC Omskiy Shinniy Zavod, OJSC Yaroslavskiy Shinniy Zavod, OJSC Voltyre and LLC Uralskiy Shinniy Zavod. The Group estimates that Sibur's passenger car tire market share was 17.4% in terms of unit sales in 2004.

- *Nizhnekamskshina.* A subsidiary of OJSC Tatneft, a prominent Russian oil company, Nizhnekamskshina produces B- and C-segment tires. Nizhnekamskshina's sole facility in the Republic of Tatarstan is one of the largest in the CIS. In addition, Nizhnekamskshina has entered into an agreement with Pirelli, pursuant to which Pirelli provides Nizhnekamskshina with know-how and technology for the production of B-segment radial passenger car tires. The Group estimates that Nizhnekamskshina's passenger car tire market share was 13.6% in terms of unit sales in 2004

- *Others.* There are a few other plants with C-segment capacities in Russia, including Moscow Tire Plant, Barnaul Tire Plant and CJSC Petroshina (Russia). C-segment producers in the other countries of the CIS include Rosava and OJSC Dneproshina (Ukraine), OJSC Belshina (Belarus) and Shymkent Tire Plant (Kazakhstan). Rosava, the largest of these factories, was under the Group's control until 2005, whereas the rest have been independent. These CIS companies all export C-segment tires to the Russian market as well as sell in their domestic markets. Over the next five years, the Group believes that, in the absence of substantial investments, the assembly lines of these C-segment producers likely will deteriorate and their output will gradually decrease.

Non-CIS markets

The Group operates outside the CIS primarily through its Vredestein subsidiary. The Group estimates that its global passenger car tire market share in 2004 was approximately 1.2% in volume terms. In Europe, the Group's primary market outside the CIS, the Group's 2004 passenger car tire market share was approximately 1.9% in volume terms.

Outside the CIS, the Group competes against several large producers, many of whom have substantially greater financial and other resources, larger distribution networks and better local delivery services and brand recognition than the Group.

The first tier of competitors consists of Bridgestone, Goodyear and Michelin. According to *Tire Business,* these competitors collectively account for approximately 55% of sales in the global tire market.

The second tier of competitors consists of Continental, Pirelli, Sumitomo Corp. and Yokohama. According to *Tire Business,* these competitors collectively account for approximately 18% of sales in the global tire market, and like the first tier competitors, they have a presence in most countries.

The third tier of competitors consists of Cooper, Hankook Tire, Kumho and Toyo. According to *Tire Business,* these competitors collectively account for approximately 1% to 5% of sales in the global tire market, and they are less internationally oriented than competitors in the top two tiers. Based on the Group's pro forma revenues for 2004, management believes that the Group falls into this third tier.

The final tier of tire companies consists of smaller local tire manufacturers, including emerging tire companies in China.

Raw materials

Carbon black

The Group estimates that in 2004 it had a 21.5% share of the Russian carbon black market in terms of volume. The Group competes primarily with the following companies in the Russian carbon black market:

➤ *Yaroslavl Carbon Black Plant* (**''Yaroslavl''**), which the Group estimates had an approximately 26% Russian market share in 2004. Yaroslavl produces a wide range of high quality carbon black grades and uses high quality packaging.

➤ *Omsk Carbon Black Plant* (**''Omsk''**), which the Group estimates had an approximately 27% Russian market share in 2004. Omsk produces a wide range of high quality carbon black grades and uses high quality packaging.

➤ *Nizhnekamsk Carbon Black* (**''Nizhnekamsk''**), which the Group estimates had an approximately 22% Russian market share in 2004. Nizhnekamsk uses high quality packaging and its prices are generally lower than its competitors.

The Group's key strength vis-à-vis these competitors is the advantageous location of its Volgograd plant and its ability to deliver carbon black products by sea, a capability that its competitors do not have.

Polyamide-6 products

According to VNIISV, Amtel-Kuzbass is the leading Russian producer of polyamide-6 yarns, polyamide-6 chips and polyamide-6 cord fabrics. The Group's overall market share in the production of polyamid-6 products was approximately 28% in 2004. The Group competes primarily with the following companies in the polyamide-6 market:

➤ *OJSC Sibur-Volzhsky* (**''Volzhsky''**), which the Group estimates had an approximately 25% Russian market share in 2004. Volzhsky's products are of a high quality and its location gives it the advantage of lower transportation costs and shorter delivery times to customers.

➤ *OJSC Schekino Khimvolokno* (**''Schekino''**) which the Group estimates had an approximately 24% Russian market share in 2004. Schekino is one of the largest Russian companies manufacturing cord fabric with stable sales and high product demand. It has implemented an ISO quality assurance system.

➤ *CJSC Kurskkhimvolokno* (**''Kursk''**) which the Group estimates had an approximately 5% Russian market share in 2004. Kursk enjoys high demand for its products, which have been sold with significant payment deferrals.

➤ *Grodno PO Khimvolokno* (**''Grodno''**) which the Group estimates had an approximately 12% Russian market share in 2004. Grodno has a broad and stable customer base and operates a quality assurance system.

➤ *OJSC Chernigovskoye Khimvolokno* (**''Chernigov''**) which the Group estimates had an approximately 6% Russian market share in 2004. Chernigov is part of Energotransinvest Corporation, the largest Ukrainian gas operator, enabling it to procure raw materials at lower costs and to purchase power at reduced rates. This minimizes the cost of the final product. Until 2003, Chernigov was part of the Group.

The Group's key strengths vis-à-vis these competitors are its broad product range, quality, value for money, secure supply, market knowledge, and flexible manufacturing and marketing policy.

OPERATIONS

Manufacturing facilities

The Group has six principal integrated manufacturing facilities. These facilities include three tire manufacturing facilities in Russia: Amtel-Tchernozemye in Voronezh, Amtel-Povolzhye in Kirov and Amtel-Siberia in Krasnoyarsk and the Vredestein tire manufacturing facility at Enschede, the Netherlands. They also include two chemical manufacturers in Russia: Amtel-Carbon in Volgograd and Amtel-Kuzbass in Kemerovo. The Group also has a network of off-take arrangements with tire manufacturers in India, Indonesia and Thailand.

Tire manufacturing facilities

The following table sets forth information about the average capacity of and quantities produced at each of the Group's tire manufacturing facilities during 2004:

Category	Amtel-Tchernozemye		Amtel-Povolzhye		Amtel-Siberia		Vredestein Enschede	
	Capacity/yr (thousand units)	Quantity produced (thousand units, 2004)	Capacity/yr (thousand units)	Quantity produced (thousand units, 2004)	Capacity/yr (thousand units)	Quantity produced (thousand units, 2004)	Capacity/yr (thousand units)	Quantity produced (thousand units, 2004)
Passenger car tires								
A- and B-segments	2,200	672	3,317	1,336	0	0	4,680	4,247
C-segment	1,000	689	1,883	1,883	1,500	1,086	0	0
Subtotal	3,200	1,361	5,200	3,219	1,500	1,086	4,680	4,247
Light truck tires								
A- and B-segments	0	0	0	0	0	0	290	290
C-segment	400	392	1,650	1,243	19	10	0	0
Subtotal	400	392	1,650	1,243	19	10	290	290
Truck tires	410	409	1,210	290	211	139	0	0
Agricultural tires	260	251	28	10	200	64	32	32
Aircraft tires	0	0	0	0	119	27	0	0
Motorcycle tires	480	0	486	83	0	0	0	0
Bicycle tires	6,609	6,609	0	0	0	0	0	0
Total	11,359	9,023	8,573	4,845	2,049	1,325	5,002	4,569

Amtel-Tchernozemye

The Group acquired the Amtel-Tchernozemye facility, located in Voronezh, in 2002. In 2003, the Group increased its ownership interest to 100%. Amtel-Tchernozemye was put into operation in 1950 as a manufacturer of tires for trucks. During the 1960s through the 1980s, the capacity of the plant was expanded and the production of tires for passenger cars, large trucks, agricultural and earth-moving vehicles and bicycles was added. The radial passenger tires production facility was added in 1997.

Amtel-Tchernozemye manufactures 109 models of tires ranging from 8 to 38 inches in diameter, including AMTEL™ PLANET™ and AMTEL™ NORDMASTER™ brand tires. The plant also produces radial tires for heavy trucks up to 25 tons. Amtel-Tchernozemye produced approximately 46% of the Group's tire output in 2004 and 45% in the first six months of 2005 on a pro forma basis. The average capacity utilization of the facility in 2004 was approximately 83%.

Amtel-Tchernozemye recently upgraded its chief manufacturing facilities to Western standards. Production is ISO-9001 certified. In 2004, Voronezh-I, an upgraded 22,000 square meter production line with an annual capacity of 2.2 million A- and B-segment tires, entered into service. Voronezh-I currently manufactures AMTEL™ PLANET™ and AMTEL™ NORDMASTER™ tires as well as light truck tires. As a result of this upgrade, Amtel-Tchernozemye has become one of Europe's largest integrated tire manufacturing facilities, with a total capacity of over 11 million units.

In 2004, the Group began construction of Voronezh-II, a 25,000 square meter greenfield production line at Amtel-Tchernozemye with an expected annual capacity of 3 million tires. Commencing at the end of 2006, Voronezh-II will produce radial passenger car tires from 13 to 16 inches in diameter under the VREDESTEIN™ and MALOYA™ brands for Russia and export to the European market. Voronezh-II will be equipped with seven tire assembly machines and 50 hydraulic presses for vulcanization. The capital expenditures required to complete the Voronezh-II project are estimated at RUB 1,570 million.

Amtel-Povolzhye
The Group acquired the Amtel-Povolzhye facility, located in Kirov, in 1999. The Group increased its ownership interest in Amtel-Povolzhye to 86% in 2003 and to 89% in 2005. Amtel-Povolzhye was put into operation in 1943 as a manufacturer of GAZ medium truck tires. During the 1960s through the 1980s, the capacity of the plant was expanded and the production of passenger cars tires, light truck tires, medium truck tires, agricultural tires, bicycle and motorcycle tires was added. The assembly, vulcanizing production and inner tube shops were added in during the 1970s through the 1980s.

Amtel-Povolzhye manufactures 118 models of tires ranging from 10 to 20 inches in diameter, including AMTEL™ PLANET™ and AMTEL™ NORDMASTER™ tires. In addition, Amtel-Povolzhye manufactures Bridgestone FORTIO™ tires pursuant to off-take contracts. In September 2005, Amtel-Povolzhye began limited production of two VREDESTEIN™ sub-brands, together with an output of approximately 3,500 tires per month. It intends to commence production of 10 additional VREDESTEIN™ and MALOYA™ tire sub-brands in 2006 with estimated output of 855,000 units per annum. Amtel-Povolzhye produced approximately 25% of the Group's tire output in 2004 and 28% in the first six months of 2005 on a pro forma basis. The average capacity utilization of the facility in 2004 was approximately 85%.

Amtel-Povolzhye recently upgraded its chief manufacturing facilities to Western standards, including the installation of a Triplex extrusion line, five fully automatic tire assembly machines and twelve vulcanizers made by ThyssenKrupp AG and other modern equipment purchased from international manufacturers. In 2003, Kirov-I, an upgraded 13,165 square meter production line, entered into service. In late 2004, Kirov-II, another upgraded 42,223 square meter production line, entered into service. By the end of 2003, Kirov-I had an annual capacity of 1.5 million A- and B-segment tires and by the end of 2004 this capacity was increased to 2.3 million. By the end of 2004, Kirov-II had a capacity of 1.9 million A- and B-segment tires. During the first half of 2005, this capacity was increased to 2.3 million. Production is ISO-9001 certified.

Amtel-Siberia
The Group acquired the Amtel-Siberia facility, located in Krasnoyarsk, in 1997. In 2003, the Group increased its ownership interest to 100%. Amtel-Siberia was put into operation in 1960 as a manufacturer of tires for medium trucks. During the 1960s through the 1980s the capacity of the plant was expanded, and the manufacturing of tires for large trucks, agricultural tires and aircraft tires was added. The passenger car tire shop was added in 1993, and a new shop manufacturing tires for large BELAZ earthmovers was added in 1994.

Amtel-Siberia manufactures 67 models of tires ranging from 13 to 38 inches in diameter. It is the only tire plant in eastern Siberia. Amtel-Siberia is the sole manufacturer of extra-large tires in Russia, including sizes 26.5 to 25, 21 to 33, 18 to 25 and 30.5 to 32 inches in diameter. In addition, Amtel-Siberia manufactures civilian and military aircraft tires in Russia. It plans to expand cooperation with the defense industry, including development of an adjustable-press tire for special purpose military vehicles. Amtel-Siberia produced approximately 7% of the Group's tire output in 2004 and 6% in the first six months of 2005 on a pro forma basis. The average capacity utilization of the facility in 2004 was approximately 75%.

In 2004, Amtel-Siberia upgraded its manufacturing facilities, which are 144,085 square meters in size, for production of medium and extra-large size truck tires, agricultural tires and aircraft tires. As part of its current restructuring program, Amtel-Siberia plans to reduce its output of C-segment tires from approximately 1.1 million in 2004 to 559,400 in 2005, or by 49%. This reduction is expected to result in cost savings of RUB 198 million.

Vredestein Enschede facility
The Group acquired Vredestein, whose chief facility is located in Enschede, the Netherlands, in 2005. Put into operation in 1946, the Enschede plant was operated as a joint venture with Goodrich Corporation until the latter exited the European market in the 1970s. Vredestein manufactures 411 models of passenger car tires ranging from 13 to 19 inches in diameter. This number is expected to increase to 550 by 2008. Most sizes come in summer, winter and all-season varieties. It also produces agricultural tires and SPACEMASTER™ brand tires at its Enschede facility.

Vredestein produced approximately 23% of the Group's tire output in 2004 and 21% in the first six months of 2005 on a pro forma basis.

Raw materials manufacturing facilities
The following table sets forth the Group's raw materials manufacturing facilities' capacity, production and market share in 2004:

	Amtel-Carbon			Amtel-Kuzbass		
Product	Capacity (tons)	Quantity produced (tons)	% of Russian market by volume	Capacity/ yr	Quantity produced	% of Russian market by volume
Carbon Black	106,000	94,121	21.5%	–	–	–
Polyamide-6 Yarns	–	–	–	31,600 tons	19,315 tons	17%
Polyamide-6 Chips	–	–	–	6,500 tons	6,136 tons	10%
Polyamide-6 Cord	–	–	–	27,095,000 meters	26,413,000 meters	52%

Amtel-Carbon
The Group acquired the Amtel-Carbon facility, located in Volgograd, in 1999. Amtel-Carbon was put into operation in 1964. The Group manufactures at its Amtel-Carbon plant 19 grades of carbon black for tire and technical rubber production. See ''–Products and services–Raw materials–Carbon black products.'' In 2004, Amtel-Carbon's output was approximately 94,000 tons, and its average capacity utilization was approximately 90%.

In 2004, Amtel-Carbon commenced the reconstruction and modernization of its main production lines, which will enable it to improve quality, decrease costs and increase capacity of the plant to 140,000 tons per year. The capital expenditures required to complete the reconstruction and modernization are approximately RUB 185,000 million. Production is ISO-9001:2000 and 9002 certified, and it meets Germany's TUV quality standard. Additionally, according to an international technical audit performed by Bridgestone, Goodyear and Pirelli, Amtel-Carbon fully meets such companies' standards for vendors of raw materials.

The Company is currently in discussions for the possible sale of Amtel-Carbon to a major U.S. chemicals company.

Amtel-Kuzbass
The Group acquired the Amtel-Kuzbass facility, located in Kemerovo, in 1999. Amtel-Kuzbass was put in operation in 1970. Amtel-Kuzbass manufactures polyamide-6 yarns, polyamide-6 chips and polyamide-6 cord fabrics used for the production of tire carcasses in the tire industry. In December 2001, Amtel-Kuzbass became Russia's first polyamide fiber producer to obtain ISO 9001 certification.

In 2004, Amtel-Kuzbass' aggregate output was approximately 25,550 tons. The plant's average capacity utilization was approximately 59%.

Amtel-Kuzbass entered into operation in 1970. After the addition of a chemical-spinning shop in 1975 and the expansion of the capacity of the facility's other shops, Amtel-Kuzbass' maximum capacity reached 39,600 tons in the 1980s. During the 1990s, a portion of the original production facilities were decommissioned. Between 2005-2007, Amtel-Kuzbass intends to upgrade and replace deteriorating machinery, including upgrading its spinning machines, which will enable it to increase yarn quality and decrease raw material consumption.

Off-Take arrangements
The Group has off-take arrangements with several tire producers in India, Indonesia and Thailand through which Vredestein procures the production of agricultural and bicycle tires. Vredestein Consulting manages these off-take arrangements. Prices are agreed annually on a product by product basis and are subject to adjustment for changes in raw material prices, labor costs product specifications and quality requirements. The Group intends to outsource production of other non-core tire products, such as truck and bus tires, through off-take arrangements.

Raw materials
The principal raw materials required to manufacture tires are synthetic rubber, natural rubber, textile and steel cords, carbon black, bead wire, chemicals and process oil.

In 2004, natural rubber accounted for 16.7% of the Group's total rubber purchases and 4.6% of its total raw material costs. In the same year, synthetic rubber accounted for the remainder of the Group's total rubber purchases and 46.7% of its total raw material costs.

The Group procures 100% of its natural rubber from overseas suppliers through local and international traders. Prices for supplies are fixed for two- to three-month periods, which helps to round drastic price swings on the commodity exchanges. In 2004, the top three suppliers provided approximately 70% of the Group's overall natural rubber purchases, and the largest supplier provided approximately 46% the Group's overall natural rubber purchases.

The Group procures synthetic rubber from domestic suppliers based on one- to three-month contracts. In 2004, the top two suppliers provided approximately 90% of the Group's overall synthetic rubber purchases.

The Group acquires other raw materials from multiple sources and maintains long-term relationships with key suppliers. The Group sources most of its carbon black and nylon cord for its tire manufacturing facilities in Russia from other companies in the Group. The Group believes that the raw materials sourced from Russian suppliers, which accounted for approximately 82% of the Group's raw material purchases in 2004, are generally cheaper than those sourced from foreign suppliers.

Warehousing and inventory management
The Group operates four principal warehouses for finished goods in Russia and one in the Netherlands. One warehouse is located in the Moscow region, having a storage capacity of approximately 300,000 tires. This facility is operated by the Group's Amtel-Logistics subsidiary, which was acquired by the Group in December 2004. The Group intends to expand the storage capacity of its Moscow warehouse to approximately 1 million tires by the end of 2008. The second warehouse is located in Kirov, having a storage capacity of approximately 250,000 tires. The third warehouse is located in Voronezh, having a storage capacity of approximately 200,000 tires. The Group intends to expand the storage capacity of its warehouse in Voronezh to approximately 750,000 tires by the end of 2007. The fourth warehouse is located in Kresnoyarsk, having a storage capacity of approximately 100,000 tires. The fifth is located at the Group's Vredestein facilities in Enschede, having a storage capacity of approximately 1 million tires. The Group also has smaller warehouses located at its other individual plants The Group manages inventory through an electronic system that provides for daily warehouse stock reports. A full reconciliation of warehouse balances is made on a monthly basis.

Quality control
The Group operates a quality assurance system certified under ISO-9001. All of the Group's manufacturing facilities conform to ISO 9001:2000 standards. Additionally, Amtel-Kuzbass is certified for ISO 14001:1996 and all processes necessary for production of SPACEMASTER™ tires is certified under VDA 6.1 of the German automotive quality system (fully covered by ISO TS 16949). The Group intends to receive ISO TS 16949 certification for production at its Amtel-Tchernozemye, Amtel-Povolzhye and Vredestein facilities by the end of 2006. Environmental assurance system ISO 14001 is now being implemented at the Group's plants with anticipated certification by the beginning of 2007.

R&D
As of June 30, 2005, the Group's R&D department had a total of 254 employees, including the R&D staff of Vredestein, consisting of 29 researchers, 177 engineers and 48 administrative staff. Six of these employees have doctorates.

Russia
In 2002, the Group consolidated its R&D centers at each of its Russian manufacturing facilities into a single R&D center located in Moscow, although the Group's manufacturing facilities continue to compile pertinent data for the R&D center and to provide it with data and feedback on product testing and monitoring. The main functions of the Russian R&D center are:

➤ Development of tires;

➤ Tire performance research, including structure analysis, performance research, new testing methods and pattern design;

➤ Manufacturing process research, including new process developments;

➤ Tire testing and evaluation;

➤ Developing R&D strategies; and

➤ R&D planning.

The R&D center is equipped with advanced computer systems and research equipment.

Europe
The Group's Vredestein R&D center is located at its production facilities in Enschede, the Netherlands. Its main activities are threefold:

➤ *Development of tires*. This includes development of tire components, reinforcing materials, rubber compounds as well as full indoor and outdoor testing of tires and components.

➤ *Basic research into areas of technological interest to the Group*. Research areas include silica compounding, tire modeling, advanced production methods, run-flat technology, sensors, tire-road noise, fatigue, and wear characteristics.

➤ *Quality & environmental assurance*, including ISO certifications and product specification control.

The center has its own indoor test facilities for endurance and high speed testing, high speed infrared analysis, laser tread wear scanning, dynamic footprint analysis and dynamic tire measurements. It also has a state-of-the-art physical and chemical laboratory for material research and competition benchmarking and 3-dimensional software for tire design and modeling.

The Group is in the process of integrating Vredestein's R&D department with its R&D department in Russia. See ''–The Group–Integration of Amtel and Vredestein businesses.'' In the remainder of 2005 and 2006, management intends to consolidate the Group's R&D and testing departments under the guidance of Vredestein's R&D center.

Intellectual property
The Group has patented most of its design and manufacturing processes in the markets in which it operates. As of September 30, 2005, the Group owned a total of 61 patents for 11 inventions and 50 registered designs. As of the same date, the Group had applications pending for eight patents and eight industrial designs.

The Group believes that these patents are, collectively, of material importance to its business and continuously monitors potential infringing uses thereof. However, it does not consider any single patent or subset of patents to be of such direct importance that the loss or expiration thereof would materially affect its business considered as a whole.

The Group owns and uses trade names and trademarks in Russia, the Netherlands, and other countries in Europe, Asia and the Americas. As of June 30, 2005, the Group held a total of 497 registered trademarks worldwide, 27 of which are registered in Russia and the CIS. In addition, the Group considers the most important such trade names and trademarks are AMTEL™, in both the English and Cyrillic alphabets, and VREDESTEIN™, as well as certain trade names and trademarks using such words.

Real property and insurance
The Group maintains casualty and fire insurance for its facilities. The Group also maintains product liability insurance in the Netherlands. All policies are subject to deductibles and coverage limitations. The Group maintains medical and accident insurance for its employees to the extent the Group considers appropriate. The Group maintains business interruption insurance in the Netherlands. It does not maintain business interruption insurance in Russia. The Group's insurance policies are provided primarily by Russian and Dutch insurance companies.

Employees
As of June 30, 2005, the Group had 17,725 regular full-time employees. The following table sets forth the number of Group employees, as categorized by function.

Category	Russia	Europe	Total
Management	82	7	89
Administration	2,008	18	2,026
Production	13,872	627	14,499
Sales and Marketing	253	168	421
Other	360	330	690
Total number of employees	16,575	1,150	17,725

Approximately 50% of the Group's employees in Russia are members of a trade union. Each of the Group's Russian production facilities enters into collective bargaining arrangements with the trade union annually. The Group has historically granted its employees in Russia annual increases in base wages and paid its employees periodic bonuses. The relations between the Group and the Russian trade union are good, and there have been no strikes or other cases of industrial action at the Group's Russian production facilities. The Group is currently seeking to optimize its personnel structure, primarily through a controlled reduction in the number of its Russian employees, outsourcing non-production activities and reducing administrative staff. Reductions in the workforce are generally constrained by relevant Russian labor legislation as well as other political and social considerations. For these reasons, the Group manages reductions in the number of personnel it employs gradually and in a controlled manner.

Approximately 30% of the Group's employees in the Netherlands are members of a trade union. The Group's Vredestein production facility enters into collective bargaining arrangements with each of its three employee trade unions annually to discuss wages and labor conditions. These agreements are generally negotiated with each union separately, rather than by following an industry negotiated (average) contract. Vredestein has historically granted its employees in the Netherlands annual increases in base wages and paid its employees periodic bonuses. The relations between the Group and the Dutch trade unions are good, and there have been no strikes or other cases of industrial action at these production facilities.

Management, in conjunction with employee representatives, determines the annual increase in wages of the Group's employees based on the Group's financial and operating performance and general macroeconomic conditions, including the rates of inflation and economic growth. The Group has in place stock appreciation rights agreements for certain senior management. These rights are triggered by the achievement of certain milestones and expire 10 years after the issuance date. See ''Directors and Management.''

Pensions
Vredestein's employees participate in two indexed-linked average pay defined benefit plans–a retirement plan and early retirement plan. For the retirement plan, eligible employees are entitled to pension benefits at retirement age of 65 or upon disability. Contributions are made to the retirement plan in the amount of 2% of the employee's qualified annual compensation from the date of employment to eligibility and are split between Vredestein and the employees. For the early retirement plan, participating employees are entitled to additional pension benefits if they elect to take early retirement at age 62. Contributions to the early retirement plan in the amount of 4% of the participating employee's qualified annual compensation from age 40 and are split between Vredestein and the employees. In 2004, Vredestein's contributions to the pension fund were EUR 4.1 million and the participating employee contributions were approximately EUR 2.6 million.

As part of the Vredestein Acquisition, the Company and the sellers agreed to reorganize the existing Vredestein pension fund, whereby the Company would establish a new pension plan by December 31, 2005 in which all consenting active Vredestein employees would participate and to which a pro-rated part of the investment portfolio of the existing Vredestein pension fund would be transferred. The sellers in the Vredestein Acquisition remain liable for the pension obligations of the retired Vredestein employees. In addition, as a condition to the Vredestein Acquisition, Vredestein agreed with the Vredestein Works Council to make additional annual contributions to the new pension fund in the amount of EUR 10.5 million over 15 years in equal annual installments of EUR 800,000. As of June 30, 2005, the fair value of the plan's assets were RUB 2,641, or approximately USD 92 million, with present value of liabilities exceeding those assets by RUB 1,019 million, or approximately USD 36 million.

For the Group's employees in Russia, the Group makes contributions to the Russian government pension fund by way of payment of the unified social tax on employee salaries.

Health, safety and environment

The Group's business and facilities are subject to stringent environmental and health and safety laws and regulations governing its manufacturing processes and the use, emission and disposal of hazardous materials. See ''Regulatory Matters.'' The Group values environmental protection and has established procedures for monitoring the environmental impact of its operations. In general, the Group has not experienced difficulty in complying with such laws and regulations. The Group's capital expenditures in respect of environmental matters was approximately RUB 64.5 million in 2004. The Group estimates that these expenditures will total approximately RUB 49.8 million in 2005. The Group expects to make similar capital investments in the next several years. Compliance with emerging laws and regulations concerning the environment and health and safety, however, could cause the Group to incur significant costs and liabilities in the future.

In addition, many of the Group's manufacturing facilities have an extended history of industrial uses. As is typical for such facilities, soil and groundwater contamination may have occurred at some facilities, and future investigations may identify a need for remediation. To date the Group has not incurred significant costs for remediation. The cost of any such future remediation would depend upon the nature and extent of the contamination, current law and approved remediation technology and the extent to which other responsible parties ultimately contribute to the remediation efforts.

Legal proceedings

The Group is not and has not been involved in any governmental, legal or arbitration proceedings that may have had or have had since the twelve months before the date of this Prospectus a significant effect on the financial position or profitability of the Group; the Company is not aware that any such proceedings are pending or threatened.

GOVERNANCE BODIES

Amtel's management structure consists of the Supervisory Board and the Executive Board and certain executive officers.

Shareholders' Meeting

Under Dutch law and the Articles, the General Meeting of Amtel is authorized to resolve, among other matters the following issues:

- To issue shares;
- To exclude or limit preemptive rights;
- To delegate the authority to issue shares and to exclude or limit the preemptive rights to another corporate body;
- To authorize the Executive Board to represent the Company in purchasing shares in its own share capital;
- To reduce the share capital of the Company;
- To appoint, suspend or dismiss members of the Executive Board and the Supervisory Board;
- To adopt the annual account;
- To discharge members of the Executive Board and the Supervisory Board;
- To distribute or reserve profits;
- To amend the Articles, to dissolve the Company and to merge and demerge the Company.

The above resolutions may be subject to the proposal or approval of other corporate bodies.

Supervisory Board

Under the Articles, the Supervisory Board supervises the management by the Executive Board and the general course of affairs of the Company. The Supervisory Board must assist the Executive Board by giving advice. In performing their duties, the Supervisory Board members must act in the best interests of the Company and its business. For further information about the Supervisory Board, see ''Description of Share Capital and Certain Requirements of Dutch Law–Board practices–Supervisory Board.'' The Supervisory Board meets at least four times per year in accordance with Article 22.5 of Company's Articles and currently consists of ten members. The names and qualifications of, and certain other information with respect to, each member of the Supervisory Board are set forth below. Pursuant to the terms of the Company's Articles, the term of office of members of the Supervisory Board is indefinite.

The business address of each of the members of the Supervisory Board is Herengracht 469, 1017 BS Amsterdam, the Netherlands.

- *Sudhir Gupta,* the founder of Amtel and the Chairman of its Supervisory Board, currently controls Amtel Luxembourg, which owns 69.52% of the Company's issued shares. From 1986 to 1990, Mr. Sudhir Gupta was a Moscow Director of Phoenix, an international import-export firm. In 1990, he established the Amtel group of companies, for which he served as Chief Executive Officer until 2004, as well as being a controlling shareholder. In 2000, Mr. Sudhir Gupta became Honorary Consul of the Republic of Ukraine in Singapore. In 2000, he was awarded the Order of ''Friendship among Peoples'' of the Russian Federation by President Putin. In 1986, Mr. Sudhir Gupta received a PhD in agricultural chemistry from the People's Friendship University named after Patrice Lumumba. During that year, he also studied finance and management at the Tokyo International Institute. In 1983, he received an MS in chemical engineering from the People's Friendship University named after Patrice Lumumba. In 1977, he received a BS in chemistry, mathematics and biology from the J. Nehru College in India. Mr. Sudhir Gupta was appointed to the Supervisory Board in 2005.

➤ *Boris Bakal* has served as the Managing Director of Citigroup Venture Capital International in London since 2002. In 1988, Mr. Bakal received an MBA from Harvard Business School. Mr. Bakal was appointed to the Supervisory Board in 2005.

➤ *Tarik Chaudri* has been President of Sabina Pak Limited since 1993. He also serves as a member of the Board of Directors of Directors of Taco Metalsasia Limited, S.I.T. Limited, SPL U.K. Limited and SASCO GmbH. He is also Honorary Investment Counselor of Pakistan in Russia. Mr. Chaudri was appointed to the Supervisory Board in 2005.

➤ *Dominic Gualtieri* has been Managing Director and Head of Equities at Alfa Bank since 2000. From 1999 to 2000, he was Managing Director of Templeton Asset Management in South Africa. From 1996 to 1999, he was Managing Director of Templeton Asset Management in Moscow, Russia. Mr. Gualtieri is also a member of the Board of Directors of the Russian Trading System (**''RTS''**). Mr. Gualtieri graduated from the University of Toronto with an MA in Economics and was twice awarded the Simcoe Fellowship for academic achievement. Mr. Gualtieri was appointed to the Supervisory Board in 2005 and his term will expire in 2009.

➤ *Daniel Gupta* graduated from the London School of Economics and Political Science with an MA in Political Economy in 2004. Mr. Daniel Gupta is the son of Mr. Sudhir Gupta. Mr. Daniel Gupta was appointed to the Supervisory Board in 2005.

➤ *Maxim Ignatiev* has been the Chairman of the Board of Reebok Russia since 2000 and General Director of Reebok Russia since 2001. From 1999 to 2000, Mr. Ignatiev was Regional Manager at Reebok in Scandinavia. From 1992 to 1999, he was general manager at Reebok in Russia. From 1986 to 1991, he was manager at Intertorg, Inc. In 1984, Mr. Ignatiev graduated from the Patrice Lumunba People's Friendship University with a degree in Mathematics and Computing. Mr. Ignatiev is also the founder, sole owner and general manager of a network of top-end fitness clubs operating under the REEBOK™ brand name. Mr. Ignatiev was appointed to the Supervisory Board in 2005 and serves as the Vice-Chairman.

➤ *Gregory Van Beek* has been the Director of Investments at Temasek Holdings since 2005. From 2001 to 2005, he was a Vice President and Investment Manager of Strategic Equity Investments at Templeton Asset Management in Singapore. In 1994, he received an MBA from Thunderbird, the Garvin School of International Management and in 1992, he received a BBA and a BA in Russian Area Studies from Southern Methodist University. He holds the Chartered Financial Analyst (CFA) designation. Mr. Van Beek was appointed to the Supervisory Board in 2005.

➤ *J. Mark Mobius* is the Managing Director of Templeton Asset Management Limited. He currently directs the analysts based in Templeton's 11 emerging markets offices and manages the emerging markets portfolios. Dr. Mobius has spent more than 30 years working in emerging markets all over the world. He was appointed Joint Chairman of the World Bank and Organization for Economic Cooperation and Development's Global Corporate Governance Forum Investor Responsibility Taskforce. Dr. Mobius joined Templeton in 1987 as Portfolio Manager of Templeton Asset Management Ltd. and then as President of the Templeton Emerging Markets Fund, Inc. Dr. Mobius is the author of the books ''Trading With China,'' ''The Investor's Guide to Emerging Markets,'' ''Mobius on Emerging Markets,'' and ''Passport to Profits.'' In 1964, he earned a PhD in Economics and Political Science from the Massachusetts Institute of Technology. In 1959, he earned an MS in Communications from Boston University. In 1958, he earned a BFA in Directing from Boston University. Mr. Mobius was appointed to the Supervisory Board in 2005.

➤ *Ruben Vardanyan* has been Chief Executive Officer and Chairman of the Board of Directors of Troika Dialog Group since 2004. Mr. Vardanyan was one of the founders of the Troika Dialog Group; from 1992 to 1996, he was Executive Director of Troika Dialog Investment Bank and from 1996 to 2002 President and Chief Executive Officer of Troika Dialog Group. From 2002 to 2004, Mr. Vardanyan was Chief Executive Officer of Rosgosstrakh and from 2004 to 2005, Chairman of Rosgosstrakh's Board of Directors. Mr. Vardanyan has been a member of the Board of Directors of Novatek and the Chairman of the Board of Directors of Sukhoi Civil Aircraft, in each case since 2005. He has been a member of the Board of Directors and Head of the Corporate Governance Committee of the Russian Union of Industrialists and Entrepreneurs since 2000. He served as Chairman of the Board of Directors of the National Association of Stock Market Participants (NAUFOR) from 1997 to 1998 and as a member of its Board of Directors from 1998 to 2002. Since 1998, he has been a member of the Board of Directors of the RTS. He has held, and continues to hold, board memberships in other Russian and foreign entities, including several civic and charitable organizations. Mr. Vardanyan holds an MA with honors in Finance from Moscow State University and has completed executive education programs at INSEAD and Harvard Business School. He was appointed to the Company's Supervisory Board in December 2005.

➤ *David Wack* has been a partner at Squire, Sanders & Dempsey L.L.P. in Moscow since 2002. From 1999 to 2002, he was an associate at Squire, Sanders & Dempsey L.L.P. in Washington, D.C. and Moscow. Prior to that he was an associate with Steptoe & Johnson LLP in Washington D.C. In 1994, Mr. Wack received a JD from the Georgetown University Law Center. In 1991, he received a BA in International Studies, *summa cum laude,* from Miami University. Mr. Wack received a certificate in Russian language from the Leningrad State Pedagogical Institute in 1990. Mr. Wack was appointed to the Supervisory Board in 2005.

Executive Board

Under the Articles, the Executive Board is responsible for the management of the Company. For further information about the Executive Board, see ''Description of Share Capital and Certain Requirements of Dutch Law–Board practices–Executive Board.'' The Executive Board meets at least twelve times per year and currently consists of four members. The names and qualifications of, and certain other information with respect to, each member of the Executive Board are set forth below. The term of office of the members of the Executive Board is unlimited.

The business address of each of the members of the Executive Board is Herengracht 469, 1017 BS Amsterdam, the Netherlands.

➤ *Alexey Gurin* has been Chief Executive Officer of Amtel since 2004, after serving Chief Financial Officer from 2002 to 2004 and Vice President of Corporate Finance from 2001 to 2002. From 1999 to 2001, Mr. Gurin was a private banker of Merrill Lynch at its Executive Financial Services Group in Toronto, Canada. From 1991 to 1995, he was First Deputy General Director of MOST-TORG, a member of the MOST group of companies, and, contemporaneously was President of Rostrade, a retail apparel chain that he founded in 1991. From 1989 to 1991, Mr. Gurin was Director of Marketing at Benetton in Moscow. In 1985, he received a Master of Arts (M.A.) degree, with honors, in engineering from the People's Friendship University named after Patrice Lumumba. In 1998, he received an MBA in finance and accounting from the University of Toronto.

➤ *Victor Nekrassov* has been Chief Financial Officer of Amtel since January 2005. From 2002 to 2004, Mr. Nekrassov was Director of the Investment Department at Interros Holding Company and participated in creating the AIG-Interros Fund, which he headed until December 2004. From 1993 to 2002, he held various positions with the European Bank for Reconstruction and Development, including Senior Banker of the Russian team and Portfolio Manager for nine Central European countries. In 2003 he served as a credit officer at Credit Lyonnais Bank in Paris. From 1982 to 1991, he served in the Ministry of Foreign Affairs of the USSR, his last position being First Secretary. In 1997, Mr. Nekrassov received an MA in Finance from London Business School, London University, and in 2002, he graduated from the National School of Administration in France.

➤ *Robert Oudshoorn* has been Chief Executive Officer of Vredestein since 1994 and a member of Amtel's Executive Board since September 2005. Before joining Vredestein, he worked from 1981 to 1994 for Michelin. At Michelin, he started in Amsterdam where he set up the Marketing Department, was relocated to South Africa (Representative Director) and from 1990 until 1994 he was Director Commercial Operations at the joint-venture Michelin-Okamoto in Tokyo, Japan. From 1978 to 1981, Mr. Oudshoorn was employed by Empeo, a large real estate development company as project manager. Mr. Oudshoorn received a BA in Law from Leiden University and an MBA from Delft University. In 2003, Mr. Oudshoorn was awarded the title ''Automotive Manager of the Year'' in the Netherlands.

➤ *Antonius (Ton) Tholens* has been Chief Financial Officer of Vredestein since 2002 and a member of the Amtel's Executive Board since September 2005. From 1998 to 2002, Mr. Tholens was Financial Director of Koninklijke Econosto NV, a trade group in Rotterdam. From 1987 to 1998, he was Financial Director in different positions within Akzo Nobel NV from 1994 to 1998, Business Unit Car Refinishes Europe, from 1992 to 1994, Business Unit Automotive Finishes Europe in Stuttgart, Germany, and from 1989 to 1992, Akzo Coatings BV in Belgium. From 1987 to 1989, he was deputy Financial Director of Akzo Coatings in Belgium. From 1982 to 1987, he was Head of Planning and Control for Akzo Coatings, a world wide company. From 1979 to 1980 Mr. Tholens was employed by Dechesne vd Boom, an audit company in the Netherlands. In 1979, he received his doctoral degree in economics at the Groningen University in the Netherlands.

Executive Officers

The names of the members of Amtel's senior management team (the **''Executive Officers''**), together with their respective positions and qualifications are set out below.

- *Sergei Bokhanov* has been the Head of Sales and Marketing at Amtel since 2005. From 2004 to July 2005, Mr. Bokhanov was first deputy general director for sales at Amtelshinprom. From 2002 to 2004, he was General Director at Yukos-M Trading House. From 1993 to 2002, he held various management posts in the pharmaceutical industry. In 2002, Mr. Bokhanov received doctorate in economics from the Moscow State University of Services. In 1993, Mr. Bokhanov graduated from the Mozhaisky Military Engineering and Space Academy with a degree in optics.

- *Kornelis (Kees) Hettema* has been Managing Director at Vredestein Consulting since 1994. From 1990 to 1994, Mr. Hettema was Director of Marketing and Sales at Vredestein and from 1986 to 1990 he was Product Group Manager for Agricultural Tires. From 1979 to 1986, he held various positions at Swedish SKF Steel's sales company in the Benelux. In 1977, he received a BS in Mechanical Engineering and in 1981 an MBA, both from Twente University in Enschede, the Netherlands.

- *Jelle Kramer* has been Director of Production and Engineering at Vredestein since 1999. From 1997 to 1999 Mr. Kramer was Plant Manager at Vredestein in Enschede. From 1991 to 1997, he was Department Manager, engaging in the development, integration and start up of automatic tire building machines. From 1970 to 1990, Mr. Kramer held several managerial jobs at Vredestein.

- *Alexander Lantushenko* has been the Deputy Head of Sales and Marketing at Amtel since 2005 and is responsible for OEM tire sales. Mr. Lantushenko joined the Company in 2002. In 2002, he was Deputy Director of Snabshinpostavka. From 1999 to 2002, he held several management positions at Sibur, including Department Director. From 1998 to 1999, he was the Deputy Director and Head of the Department at Shinni Holding. In 1998, he worked as the Deputy Director of GUP Moscontractprom. From 1983 to 1998, he worked at the Moscow Tire Plant and held several management positions, including Deputy Director of Marketing and Personnel Director. From 1980 to 1983, he was an official at the Zhdanovski District Komsomol Committee in Moscow. From 1977 to 1980, he worked as an Engineer at the Farm Equipment Research and Development Institute. Mr. Lantushenko graduated with a degree in Engineering from the Moscow Automechanical Institute in 1977.

- *Marc Luyten* has been Director of Corporate Marketing and Sales at Vredestein since 1995. From 1992 to 1995, Mr. Luyten was Managing Director at Vredestein Belgium (Brussels) and Sales Manager in the Dutch market. From 1984 to 1989 he was Director of Sales and Marketing in the international department of W.H. Brady, a US company producing connectors and cable-related products. From 1979 to 1984, he was Marketing and Sales Manager at the OPEC-SLI Group in Brussels. From 1972 to 1979, he was Communications and PR Manager at the Ministry of Public Works in Brussels, in Ghent and Bruges. From 1989 to 1992, he worked at Panduit Co. as Managing Director of Panduit Belgium and engaged in the start-up of a manufacturing division for ID products in Bad Homburg (Germany). In 1972, Mr. Luyten graduated from the IHNUS Marketing Institute(B), with management training in the United States.

- *Andrey Makov* has been Deputy General Manager and Head of Legal Department at Amtel since 2005. From 2003 to 2005, Mr. Makov was Head of Legal Department of Istok. From February 2003 to August 2003, he was Country Legal Counsel for Russia at Coca-Cola HBC Eurasia. From 2001 to 2003, he was Head of the Legal Department at Cargill Inc. in Russia. In 2001, he worked as in-house counsel at Efes Brewery Moscow. From 1995 to 2001, he was deputy-managing director at Juris, a legal consultancy associated with Ernst & Young. From 1986 to 1995, he worked in the Ministry of Foreign Affairs of the USSR and Russia. His last position was second secretary of the Russian Embassy in the Republic of South Africa. In 1986, Mr. Makov graduated from Moscow State Institute of Foreign Relations (MGIMO) with an International Lawyer qualification.

- *Jan A.N. Mos* has been Director of Personnel and Organization at Vredestein since September 1992. From 1987 to 1992, Mr. Mos was a senior Management Consultant for the Rijnconsult Group. During this period he worked for several multinationals as well for the government, focusing on strategy, business units, leadership, human resources and quality management. In 1977, Mr. Mos graduated from the HR-Institute, and in 1982, he graduated from the University of Groningen, with a degree in Labor Relations. In 2005, he completed a Senior Management Course at the University of Groningen.

- *Marie Jose Nuelandt* has been Head of Human Resources (**"HR"**) of Amtel since 2005. In June 2004, she became HR Director of Nizhegorodskiy Oil and Fats Complex. In 2003, Ms. Neulandt was First Deputy General Director–HR Director at Gloria Jeans (Rostov-on Don). In February 2002, she was appointed as Project Director for the HR Office at Rusal, and in May 2002, she was appointed within the group as the HR Director of Krasnoyarsk Aluminum Plant. In 1998, Ms. Neulandt was appointed as HR Director and Member of the Management Board of Borsk Glass Plant within the Asahi Glaverbel Group. From 1997 to 1998, she was the Head of the Moscow Representative Office of the Swiss company Marc Rich. In 1993, Ms. Neulandt was appointed the Administrative Director of the Moscow Representative Office of Phibro Energy (UK). From 1982 to 1993, she worked as Administrative Coordinator of the Moscow Representative Office of the Belgian and American company Protein Technologies International. From 1980 to 1982, Ms. Nuelandt was Manager of the Moscow Office of the German company Oweskon. From 1979 to 1980, she worked for the Moscow Representative Office of the Belgian company Tracosa as the Head of the Non-Ferrous Metallurgy Department. In 1978, she graduated from Brussels Catholic University.

- *Pavel Smirnov* has been Head of Marketing at Amtel since 2004. From 1997 to 2004, he was employed by Wimm-Bill-Dann as Expert Analyst (1997 to 1998), Brand Manager (1998 to 1999) and Marketing Director (1999 to 2004). From 1995 to 1997, he worked as a researcher at the Ministry of Defense Institute. In 1995, Mr. Smirnov graduated from the F.E. Dzerzhinskiy Military Academy as a specialist in automated flight control systems.

- *Peter J. Snel* has been Director Research & Development and Quality & Environmental Assurance at Vredestein since July 2001. From 1991 to 2001, Mr. Snel worked for the Robert Bosch Group (Van Doorne's Transmissie B.V.) (**"Robert Bosch"**) in the Netherlands where he was responsible for the development of continuously variable transmission components for several automotive companies. From 1998 to 2000, he worked for Robert Bosch in the United States, as Project Manager for Ford, General Motors and Daimler Chrysler. From 2000 to 2001, he worked for Robert Bosch as Director of Research & Development. In 1989, Mr. Snel graduated from Eindhoven Technical University with a degree in Mechanical Engineering.

- *Karen Topchiyan* has been the Chief Operating Officer at Amtel since June 2005. From 2003 to November 2004, he was Head of Internal Audit Department of Amtel. From November 2004 to June 2005, he was General Director of Amtelshinprom. From 1997 to 2003, he was Vice-President of Amtel and Chief Executive of Amtel's enterprises in Ukraine. From 1996 to 1997, Mr. Topchiyan was Head of the Finance and Loans Department at the State Enterprise Rosenergoatom of the Ministry of Atomic Energy of the Russian Federation. From 1981 to 1993, he was a Manager and Engineer at the Ministry of Energy of the USSR. In 1981, Mr. Topchiyan graduated from the Ordhonikidze Moscow Institute of Management with a degree in Economy and Management. In 1985, he received a PhD in economics from the Ordjonikidze Moscow Institute of Management. In 1995, he received a certificate of external auditor from the Ministry of Finance of the Russian Federation.

- *Oleg Vinogradov* has been the Head of Corporate Finance at Amtel since 2003. From 2000 to 2003, Mr. Vinogradov was a Financial Adviser to the President of GAZ, a major Russian automobile manufacturer. From 1997 to 2000, he held various positions with GAZ, including the position of Deputy Finance Director. From 1996 to 1997, he was Financial Controller for Ingersoll-Rand's Russian operations. In 1995, Mr. Vinogradov graduated from the All-Russian Extramural Financial Institute with a degree in accounting and auditing.

- *Anatoly Volnov* has been the Head of Research & Quality Control & Technology Department at Amtel since July 2005. From November 2002 to July 2005, he was Director of the Research and Advanced Development Center. From 1992 to 2002, Mr. Volnov was Director of the Scientific Research Institute for the Tire Industry. From 1995 to present, he was Editor-in-Chief of the scientific journal *World of Tires*. In 1970, Mr. Volnov graduated from the M.V. Lomonosov Moscow State Institute of Fine Chemical Technology with a degree in engineering. In 1986, he completed a post-graduate work from the M.V. Lomonosov Moscow State Institute of Fine Chemical Technology with a doctorate in technical sciences. In 1990, he received a diploma in Economic Methods of Research and Development Management in the training centre of the Plekhanov Russian Academy of Economics. In 1991, he completed a management course at University of California at Los Angeles.

- *Vladimir Yurk* has been the Deputy Head of Raw Material Purchasing Department at the Company since 2005. From 1999-2005, he was the Head of Raw Material Purchasing Department. From 1994 to 1999, Mr. Yurk was as Commercial Director of OJSC Omskshina, where he participated in the creation of OJSC Omskshina's joint venture with Matador, a Slovakian tire manufacturer. In 1990, Mr. Yurk graduated from

Omsk Polytechnical Institute with a degree in industrial management. In 1991, he attended New York Business School, where he studied Business Administration.

➤ *Andrei Zyrianov* has been the Head of Raw Material Purchasing Department at Amtel since 2005. From 2003 to 2005, Mr. Zyrianov was Director and Purchasing Director at Istok, a leading Russian alcoholic beverages manufacturer. From 2000 to 2003, he was Procurement Director at Campomos. From 1993 to 2000, he worked as Chief Area Manager and Head of Representative office for Campofrio, multinational meat processing and nutrition company. From 1988 to 1993, Mr. Zyrianov worked in Administration of the President of Russia, the Ministry of Foreign Affairs of Russia and in the USSR Embassy in Colombia. In 1987, Mr. Zyrianov graduated from the Moscow State University of International Relations with a diploma of honor (*summa cum laude*) in international economic relations and foreign trade. In 1999, he received Executive Master of Business Administration at EI IESE of the University of Navarra in Madrid, Spain.

Two of the members of the Company's Supervisory Board may have a potential conflict of interest in connection with the Offering. Mr. Gualtieri is a managing director of Alfa Bank, an affiliate of one of the Managers, Alfa Capital Holdings. Mr. Vardanyan is Chief Executive Officer and Chairman of the Board of Directors of Troika Dialog Group, an affiliate of one of the Managers, Nikitas Brokerage Limited. To address this potential conflict, Mr. Gualtieri and Mr. Vardanyan have abstained from voting on matters related to the Offering Price and the terms of the Underwriting Agreement. No member of the Supervisory or Executive Board nor any Executive Officers has:

➤ Any conviction for any fraudulent offense;

➤ Been a member of the supervisory or executive board or executive officer of any company which has been placed in liquidation or to whom a receiver was appointed;

➤ Been the subject of any personal bankruptcy proceeding or any public sanction by any statutory or regulatory authority; or

➤ Except as indicated above, any conflict of interest (actual or potential) between the private interest and duties to the Company.

Except as indicated above, no member of the Supervisory or Executive Board, nor any Executive Officer is a member of a supervisory management or administrative Body of any other company outside of the Group.

REMUNERATION OF MEMBERS OF THE SUPERVISORY AND EXECUTIVE BOARD AND EXECUTIVE OFFICERS

No Supervisory Board member received remuneration during the year ended December 31, 2004, because the Supervisory Board did not come into being until January 21, 2005. The following table sets forth the remuneration in salary, bonuses and benefits in kind paid to the current members of the Executive Board and Executive Officers that were employed by the Company during the year ended December 31, 2004. The other current members of the Executive Board and Executive Officers began their employment with the Company after January 1, 2005.

Individual	Title	Remuneration (RUB)
Alexey Gurin	Chief Executive Officer	4,033,486
Pavel Smirnov	Head of Marketing	2,177,522
Karen Topchiyan	Chief Operating Officer (Head of Internal Audit Department in 2004)	9,848,000
Oleg Vinogradov	Head of Corporate Finance	1,986,080
Anatoly Volnov	Head of Research & Quality Control & Technology Department (Director of the Research and Advanced Development Center in 2004)	1,306,345
Vladimir Yurk	Deputy Head of Raw Material Purchasing Department (Head of Raw Material Purchasing Department in 2004)	8,184,706

Except as noted below, the Company's employment contracts with its directors do not provide for special benefits upon termination of employment. Pursuant to Dutch law, the Company's financial statements must set forth the remuneration of each director and loans, advances and/or guarantees provided to each director.

The Company has determined a policy on the remuneration of the Executive Board, adopted by the General Meeting on October 12, 2005, which includes:

➤ The remuneration structure; and

➤ The amount of the fixed remuneration, shares and/or options to be granted and/or other variable remuneration components, pension rights, redundancy pay and other forms of compensation awarded, as well as the performance criteria and their application.

Each of Messrs. Gurin and Nekrassov has an employment agreement with the Company which in the event of termination without cause provides for the payment of two months salary. Additionally, the Company has guaranteed a loan of USD 300,000 at 12% per annum to Mr. Nekrassov from OJSC JSCB Rosbank (**''Rosbank''**) due December 25, 2005 (the **''Rosbank Loan''**). The Company guaranteed the Rosbank Loan on April 25, 2005. In January 2005, the Company entered into a loan agreement with Mr. Nekrassov for a USD 300,000 loan at an interest rate of one month LIBOR + 3% per annum having a term of five years. The proceeds of this loan, when drawn upon, will be used to repay the Rosbank Loan. As of the date of this Prospectus, the outstanding principal balance of the Rosbank Loan is USD 200,000. Mr. Oudshoorn has an employment agreement with Vredestein which in the event of termination, except as a result of his negligence or misconduct, provides for the payment of one year salary. Mr. Tholens has an employment agreement with Vredestein which in the event of termination, except as a result of his gross negligence or misconduct or due to a change or control, dissolution of Vredestein or change in his position, provides for the payment of one year salary.

The Executive Officers named in this Prospectus who work and reside in Russia have contracts of employment with the Group which in accordance with the Russian law entitles them on termination in certain circumstances, to the payment of a maximum sum equal to three months salary. In general, the Executive Officers named in this Prospectus who usually work in the Netherlands may be entitled to severance compensation as provided by Dutch law.

The Group pays to the Russian Federal Pension Fund, a maximum amount equal to 14% per annum of the salary of the members of the Executive Board and the Executive Officers who work and reside in Russia. Similarly, the Group pays to the Russian Federal Medical Insurance Fund, for members of Executive Board and Executive Officers who work and reside in Russia, a maximum amount equal to 2.8% per annum of their salary and 3.4% per annum to a Social Insurance Fund.

Except as described above, the Group does not make any payments to any Pension or Retirement Fund for the benefit of any member of the Supervisory or Executive Board or Executive Officer.

BOARD COMMITTEES

Audit committee

The Company's Audit Committee members are:

➤ Tarik Chaudri;

➤ Dominic Gualtieri; and

➤ Gregory Van Beek.

The general purpose of the Audit Committee is to advise and assist the Supervisory Board with respect to its responsibility to supervise the Company's compliance of its overall financial information, control and reporting systems (and their outcome) with the relevant requirements set forth by the applicable rules and regulations (Dutch Civil Code, Dutch GAAP, IFRS), and applicable Corporate Governance.

Remuneration and appointment committee
The Company's Remuneration and Appointment Committee members are:

- Daniel Gupta
- Maxim Ignatiev; and
- Ruben Vardanyan.

The Remuneration and Appointment Committee is responsible for making proposals to the Supervisory Board for the appointment and remuneration policy to be pursued for members of the Executive Board, drafting proposals for the appointment and remuneration of individual members of the Executive Board, including selection criteria and appointment procedures, remuneration structure and any share options or awards and several payments.

CORPORATE GOVERNANCE

On December 9, 2003, a committee commissioned by the Dutch government (*Commissie Tabaksblat*) published a Dutch corporate governance code (the **''Code''**). The Code applies to all companies whose registered office is in the Netherlands and whose shares or depositary receipts for shares are officially listed on a government-recognized stock exchange. The provisions of the Code took effect on January 1, 2004 and apply to annual reports for financial years starting on or after January 1, 2004. The Dutch legislature has provided the Code with a legal basis by introducing paragraphs 4 and 5 of Article 2: 391 of the Dutch Civil Code on December 31, 2004.

Until the admittance of the GDRs to the Official List, the Code was not directly applicable to the Company. The Company has started implementing the principles and concrete provisions contained in the Code. For instance, the Supervisory Board has approved a set of regulations largely tracking the requirements of the Code, formed an Audit and Remuneration and Appointment Committee and adopted regulations setting forth their roles and responsibilities.

Under the Code, companies must detail in their annual financial statements the extent of compliance with the Code and explain why and to what extent they have not complied with certain best practice principles. The Company intends to detail in its future financial statements the extent of compliance to the Code and reasons for non-compliance (if applicable).

Currently, seven of the ten members of the Supervisory Board are independent within the meaning of the Code. This is not in compliance with the Code. As a result of successive private placement rounds from 2003 to 2005, the Company agreed to place investor representatives on its Supervisory Board. See ''Description of Share Capital and certain requirements of Dutch Law.'' The Company intends to appoint other independent members of the Supervisory Board in 2006.

In deviation from the Code and based on the Articles, the Supervisory Board Members can be reappointed without any maximum number of reappointments, and Executive Board Members may be appointed for an unlimited period of time.

SHARE AWARD, SHARE APPRECIATION RIGHTS AND SHARE OPTION AGREEMENTS

Share award
Pursuant to the terms of a share award agreement, between the Company and Alexey Gurin, dated February 4, 2004 (the **''Share Award Agreement''**), on April 29, 2004, the Company issued 40,000 Ordinary Shares to Mr. Gurin as a reward and compensation for his services to the Group. See ''Description of Share Capital and Certain Requirements of Dutch Law — Share Capital.'' The shares vested immediately, but are subject to a discounted call option by the Company in the event Mr. Gurin is terminated for cause. On the date of issue, the fair value of the shares issued to Mr. Gurin was estimated at approximately RUB 151 million.

Share appreciation rights
The Company has entered into share appreciation rights agreements (the **''SAR Agreements''**) with each of Messrs. Bokhanov, Gurin, Lantushenko, Nekrassov, Topchiyan and Volnov pursuant to which each of these persons receives share appreciation rights (**''SARs''**) exercisable:

➤ upon a liquidity event, which includes the Offering; or

➤ when the Group achieves certain capitalization targets, which range from USD 500 million to USD 900 million.

In each case, the grantee must also meet certain individual performance targets, as determined by the Supervisory Board under some SAR Agreements and the Management Board under the others.

The SARs give the grantee the right, at the Supervisory Board's election, to:

➤ a specified cash payment from the Company, which represents a specified percentage of the increase in the agreed fair market value of the Company's share capital from the grand date to the vesting date (such increase, the **''Valuation Gain''**); or

➤ the **''Share Option,''** or the right to receive Ordinary Shares having a fair market value equal to a specified percentage of the Valuation Gain; or

➤ a combination of the foregoing.

The agreed fair market value of the Company's share capital on the grant date varies by grantee. For Messrs. Bokhanov, Lantushenko, Nekrassov and Volnov, the aggregate value of any cash payment and Share Option may not exceed USD 5 million.

The Company currently intends to grant the Share Option upon successful closing of the Offering. The following table sets forth the number of Ordinary Shares and the percentage of share capital to which each grantee will be entitled immediately following the Offering. See ''Principal and Selling Shareholders.'' The table assumes an Offer Price of USD 11.00 per share.

Name	Agreed Value of Share Capital at Grant Date (USD, millions)	Value of Share Capital at Vesting Date(1) (USD, millions)	Percentage of Valuation Gain	Value of Share Award (USD. millions)	Number of Shares to be Awarded(2),(3)
Victor Nekrassov	450	589	1.6666%	2.32(2)	211,316
Alexey Gurin	350	589	1.0%	2.39	217,704
Sergey Bokhanov	450	589	0.8%	1.12	101,436
Karen Topchiyan	350	589	0.5%	1.20	108,852
Alexander Lantushenko	600	589	0.1%	0	0
Anatoly Volnov	600	589	0.1%	0	0

(1) *Based on the 53,588,570 Shares issued before the Offering and assuming an Offer Price of USD 11.00 per Share.*
(2) *Mr. Nekrassov's share award cannot exceed USD 5 million.*
(3) *Mr. Lantushenko's and Mr. Volnov's SARs are ''out of the money,'' and they therefore will not be awarded any Shares upon the closing of the Offering.*

All shares issued to the Company's executives under the terms of the SAR Agreements are subject to restrictions on sale. In particular, no executive may sell, sell short, loan, hypothecate, pledge, grant any option for the purchase of or otherwise dispose or transfer for value, or agree to engage in any of the foregoing, without the prior written consent of the Company or its underwriters (the **''Market Stand Off''**). The Market Stand Off will commence on the effective date of this Prospectus and end 180 days after the Closing Date.

Share options
In October 2005, pursuant to the terms of share option agreements (the **''Share Option Agreements''**) the Company granted to Messrs. Hettema, Oudshoorn and Tholens share options (the **''Share Options''**) to purchase up to an aggregate of 260,000 Shares, representing approximately 0.29% of the Company's share capital at USD 12.72 per share. All shares issued to the Company's executives under the terms of the Share Option Agreements are subject to the Market Stand Off. The Market Stand Off will commence on the effective date of this Prospectus and end 180 days after the Closing Date.

Further share options

In October 2005, pursuant to the terms of further option agreements (the **''Further Option Agreements''**), the Company granted to each of Messrs. Gurin, Nekrassov, Bokhanov, Topichyan, Oudshoorn, Tholens, Hettema, Luyten, Snel, Kramer and Mos options to purchase a specified percentage of post-Offering Shares, as set forth in the following table:

Grantee	Percentage of Shares in the Company
Alexey Gurin	2.50%
Victor Nekrassov	1.50%
Sergei Bokhanov	1.00%
Karen Topichyan	1.00%
Rob Oudshoorn	0.56%
Ton Tholens	0.56%
Kees Hettema	0.44%
Marc Luyten	0.44%
Peter Snel	0.44%
Jelle Kramer	0.28%
Jan Mos	0.28%

The per Share exercise price of each option is the per Share price of the Offering. Each option vests upon the earlier of:

- The third anniversary of the grant date; or

- A second public offering that results in the issuance and sale by the Company of Shares (or depositary receipts reflecting Shares) in a firm commitment public underwriting on a recognized stock exchange generating not less than USD 100 million in proceeds to the Company following the Offering.

Each option terminates on the earliest of:

- The fifth anniversary of the grant date;

- The last date for exercising the option following termination of the grantee's employment, as set forth in the option agreement; and

- Certain reorganizations, dissolutions or liquidations of the Company.

Shares issued pursuant to the Further Option Agreements may be subject to the Market Stand Off, if requested by the underwriters.

DIRECTORS AND MANAGEMENT SHARE OWNERSHIP

As of the date of this Prospectus, Alexey Gurin, the Company's Chief Executive Officer, is the only member of the Executive Board who owns shares in the Company. As of the Offering Date, Mr. Gurin owns 744,710 Ordinary Shares, representing 1.38% of the Company's issued share capital. Mr. Sudhir Gupta, the Chairman of the Company's Supervisory Board, is the beneficial owner of Amtel Luxembourg, which owns 37,256,450 Ordinary Shares, representing 69.52% of the Company's issued share capital. See ''Principal and Selling Shareholders.''

Principal and Selling Shareholders

The following table sets forth information regarding the ownership of the Company's Ordinary Shares (i) as of the date of this Prospectus, and (ii) as of the Closing Date, as adjusted to reflect the sale of the Shares in the Offering and the exercise of the Over-Allotment Option in full. The shareholders have provided the Company with information about their beneficial interest in the Company.

	Before the Offering		After the Offering		After Exercise of SARs and Stock Options[8]	
Ordinary Shareholders	Number of Shares	Percentage of Share Capital	Number of Shares	Percentage of Share Capital	Number of Shares	Percentage of Share Capital
Amtel Luxembourg S.A. .... *Address: 69, boulevard de la Pétrusse L-2320 Luxembourg*	37,256,450	69.52%	34,877,955	51.67%	34,877,955	51.19%
ING Bank N.V.[1] .... *Address: Van Heenvlietlaan 220 1083 CN Amsterdam, Netherlands*	4,500,000	8.40%	3,537,050	5.24%	3,537,050	5.19%
ING Bank acts as custodian on behalf of the following Selling Shareholders:						
TD Investments Limited .... *Address: 2-4 Arch. Makarios III Avenue Capital Center, 9th Floor Nicosia 1505, Cyprus*	1,335,054	2.49%	822,104	1.22%	822,104	1.21%
Lindsell Enterprises Limited .... *Address: 2-4 Arch. Makarios III Avenue Capital Center, 9th Floor Nicosia 1505, Cyprus*	450,000	0.84%	—	0.00%	—	0.00%
Alfa Capital Holdings (Cyprus) Limited[2],[3] .. *Address: Elenion Building, 2nd Floor Themistocles Dervis Street CY-1066 Nicosia, Cyprus*	4,281,430	7.99%	4,281,430	6.34%	4,281,430	6.28%
Templeton Strategic Emerging Markets Fund.................................. *Address: 7 Temasek Boulevard #38-03 Suntec Tower One Republic of Singapore 038987*	2,498,840	4.66%	—	0.00%	—	0.00%
Aranda Investments Pte. Ltd.[4],[5] .... *Address: 60B Orchard Road,#06-18 Tower 2 The Atrium@Orchard Republic of Singapore 238891*	2,378,570	4.44%	2,378,570	3.52%	2,378,570	3.49%
Citicorp International Finance Corporation[6],[7] .... *Address: New Castle Corporate Commons One Penn's Way New Castle, Delaware 19720, USA*	1,928,570	3.60%	964,285	1.43%	964,285	1.42%
Alexey Gurin .... *Address: 1st Brestskaya St. 33/17, Apt. 19 125047 Moscow, Russian Federation*	744,710	1.39%	372,355	0.55%	590,059	0.87%
Purchasers in the Offering	—	—	21,089,850	31.24%	21,089,850	30.95%
SARs and Share Options exercised[9]	–	–	–	–	421,604	–
Total	53,588,570	100.00%		100.00%		100.00%

(1) *ING Bank acts as transfer and paying agent in the capacity of an admitted institution to Euroclear Netherlands (Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.) under the Dutch Securities Giro Act (Wet giraal effectenverkeer) and as custodian on behalf of several beneficial owners of Ordinary Shares.*

(2) *Alfa Capital Holdings is one of the Managers.*

(3) *Pursuant to the terms of a price adjustment call option agreement, dated June 30, 2005 (the* ***"Alfa Adjustment Agreement"****), between Amtel Luxembourg and Alfa Capital Holdings, Alfa Capital Holdings has the option to purchase from Amtel Luxembourg, at nominal value, additional Ordinary Shares in the event: (i) the total debt of the Group exceeds U.S.$345.7 million at December 31, 2005; (ii) EBITDA of the Group for the financial year ended December 31, 2005 is less than U.S.$135 million on a pro forma basis; (iii) the value of the Company's issued share capital based on the Offer Price is less than U.S.$700 million; or (iv) if Rosava is not re-acquired by June 30, 2006. The calculations of total debt, EBITDA and market valuation as well as the amount of*

additional Ordinary Shares to which Alfa Capital Holdings is entitled in each of the foregoing triggering events are determined by formulae as set forth in the Alfa Adjustment Agreement.

(4) *Aranda Investments Pte. Ltd (**''Aranda''**) is beneficially owned by Temasek Holdings (Private) Limited.*

(5) *Pursuant to the terms of a price adjustment call option agreement, dated June 30, 2005 (the **''Aranda Adjustment Agreement''**), between Amtel Luxembourg and Aranda, Aranda has the option to purchase from Amtel Luxembourg, at nominal value, additional Ordinary Shares in the event that (i) the total debt of the Group exceeds U.S.$345.7 million at December 31, 2005; (ii) EBITDA of the Group for the financial year ended December 31, 2005 is less than U.S.$135 million on a pro forma basis; (iii) the value of the Company's issued share capital based on the Offer Price is less than U.S.$700 million; or (iv) if Rosava is not re-acquired by June 30, 2006. The calculations of total debt, EBITDA and market valuation as well as the amount of additional shares to which Aranda is entitled in each of the foregoing events are determined by formulae as set forth in the Aranda Adjustment Agreement.*

(6) *Citicorp International Finance Corporation (**''CIFC''**) holds a Warrant, dated December 15, 2004 (**''CIFC Warrant''**), granting CIFC the right to purchase 642,860 additional Dutch depositary receipts for Ordinary Shares for U.S.$5,000,000 at any time up to December 15, 2006. The CIFC Warrant may be exercised upon 10 business days prior notice.*

(7) *Pursuant to the terms of a price adjustment call option agreement, dated December 15, 2004 (the **''CIFC Adjustment Agreement''**), between Amtel Luxembourg and CIFC, CIFC has the option to purchase, at nominal value, additional Ordinary Shares from Amtel Luxembourg if the Offer Price is less than U.S.$10.80 per Share such that the additional Ordinary Shares acquired by CIFC pursuant to the option would result in the reduction of CIFC's effective purchase price per Ordinary Share at entry to an amount equal to the Offer Price.*

(8) *The number of Shares issued pursuant to the SAR Agreements depends upon the Offer Price. This table assumes the Offer Price of USD 11.00 per Share and assumes that SARs and share options ''out of the money'' on the Closing Date will not be awarded or exercised, as the case may be. Share options of Messrs. Hettema, Oudshoorn and Tholens, although ''out-of-the-money'' as of the Closing Date, will be exercisable for two years following the grant date thereof in respect of an aggregate of 260,000 Shares. For a further discussion of the SARs and share options, see ''Directors and Management–Share award, share appreciation rights and share option agreements.''*

(9) *Excluding SARs exercised by Alexey Gurin, which are reflected in the line item for Mr. Gurin.*

Mr. Sudhir Gupta, founder of the Amtel group and Chairman of the Company's Supervisory Board, has a beneficial interest in 100% of Amtel Luxembourg. Immediately after the Offering, Amtel Luxembourg will directly hold 55.2% of the issued share capital of the Company and will hold 51.7% if the Over-Allotment Option is exercised in full. The Articles provide that holders of a majority of the share capital of the Company may elect all of the members of the Supervisory Board and Executive Board. With respect to the appointment of the members of the Executive Board and the members of the Supervisory Board see ''Description of Share Capital and Certain Requirements of Dutch Law–Board practices.'' Consequently, prior to and after the Offering, Amtel Luxembourg, and Mr. Sudhir Gupta as the controlling shareholder thereof, will continue to exercise control over the appointment of all of the members of the Supervisory and Executive Board of the Company, will have in effect veto power over proposed resolutions of the General Meeting and will have the power to pass resolutions of the General Meeting in respect of all matters with due observance of resolutions to be approved by the Preferred Shareholders, if outstanding. See ''Risk Factors–Risks relating to Group's business and industry–The Group's indirect controlling shareholder exerts significant influence over it, and his interests may conflict with those of other shareholders and GDR holders.''

The Company's Preferred Shares have certain rights that differ from its Ordinary shares. See ''Description of Share Capital and Certain Requirements of Dutch Law.''

Except as disclosed above, there are no other persons who could exercise control over the Company and no person has any right or option to acquire Ordinary Shares, Preferred Shares, GDRs or any other securities of the Company. The Company is not aware of any arrangements, the operation of which at a subsequent date may result in a change of control of the Company.

The Principal and Selling Shareholders who are selling Shares in the Offering and receiving proceeds from such sale have an interest in ensuring the success of the Offering.

Related Party Transactions

The following is a summary of significant transactions with related parties for the six months ended June 30, 2005 and for the years ended December 31, 2003 and 2004, up to the date of this Prospectus. For further details of these transactions, see note 30 of the Group Annual Financial Statements and note 21 of the Group Interim Financial Statements.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined under IAS 24, *Related Party Disclosures*. Transactions with key management personnel and entities that are controlled, jointly controlled or significantly influenced by key management personnel were recognized and have also been disclosed.

The Group engages in transactions with related parties. Its reported statements of income, balance sheets and cash flows would be different had such transactions been carried out with unrelated parties. The Group may enter into transactions with related parties which unrelated parties might not, and such transactions may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

In 2005, 2004 and 2003, the Group had significant activities with persons and companies, related to its shareholders or managers of companies in the Group, as follows:

SHARE AWARD AND SHARE APPRECIATION RIGHTS

In May 2004, pursuant to the terms of the Share Award Agreement, the Company issued 40,000 Ordinary Shares to Mr. Gurin as a reward and compensation for his services to the Company and the Group. See ''Directors and Management,'' ''Principal and Selling Shareholders'' and ''Description of Share Capital and Certain Requirements of Dutch Law.''

In 2004, the Company entered into the SAR Agreements with Messrs. Bokhanov, Gurin, Lantushenko, Nekrassov, Topchiyan, and Volnov, which granted each of these persons share appreciation rights with the right to receive a cash bonus or a share award as determined by the Supervisory Board. The share appreciation rights are exercisable upon a liquidity event, which includes the Offering, or when the Group achieves certain capitalization targets, which vary from USD 500 million to USD 900 million; provided that management meets certain individual performance targets as determined by the supervisory board. The Company intends to grant the Share Option upon successful Closing of the Offering. See ''Directors and Management–Share award, share application rights and share option agreements–Share appreciation rights'' and ''Principal and Selling Shareholders.''

In October 2005, pursuant to the terms of the Share Option Agreements, the Company granted to Messrs. Hettema, Oudshoorn and Tholens share options to purchase up to an aggregate of 260,000 Shares, representing approximately 0.29% of the Company's share capital, at USD 12.72 per Share. See ''Directors and Management — Share award, share appreciation rights and share option agreements — Share options'' and ''Principal and Selling Shareholders.''

In October 2005, pursuant to the terms of the Further Option Agreements, the Company granted to each of Messrs. Gurin, Nekrassov, Bokhanov, Topichyan, Oudshoorn, Tholens, Hettema, Luyten, Snel, Kramer and Mos options to purchase a specified percentage of post-Offering Shares in the Company. The per Share exercise price of each option is the per Share price of the Offering. See ''Directors and Management — Share award, share appreciation rights and share option agreements — Further share options'' and ''Principal and Selling Shareholders.''

SALES OF GOODS

During 2003 and 2004, the Group had sales to related parties of RUB 188 million and RUB 150 million, respectively. For the first six months of 2005, sales to related parties amounted to RUB 51 million. Except for sales to Amtel Ventures Pte. Ltd., these sales were primarily sales of tires to the following related parties: Amtel Enterprises Limited (**''Amtel Enterprises''**), Centrshinprom, Dorogi Rossii, Kontinentgroup, Shininvest, Shinmarket and Mr. Vinnik. Sales to Amtel Ventures Pte. Ltd. were for other Group products. Sales to Automotive Tire Supply Management (**"ATSM"**) were for certain tire manufacturing equipment.

The following table shows the sales to related parties for the periods indicated:

	As of December 31,				As of June 30,	
	2003 (RUB million)	**2003 (USD million)(1)**	**2004 (RUB million)**	**2004 (USD million)(2)**	**2005 (RUB million)**	**2005 (USD million)(3)**
Amtel Enterprises Ltd.	2.00	0.07	33.00	1.15	25.00	0.89
Amtel Ventures Pte. Ltd.	–	–	13.00	0.45	–	–
ATSM	74.00	2.41	–	–	–	–
Centrshinprom	4.00	0.13	–	–	–	–
Dorogi Rossii	11.00	0.36	–	–	–	–
Kontinentgroup	6.00	0.20	–	–	–	–
Shininvest	78.00	2.54	–	–	–	–
Mr. Vinnik	–	–	104.00	3.61	26.00	0.93
Others	13.00	0.42	–	–	–	–
Total	188	6.13	150	5.21	51	1.82

(1) *Convenience translation into USD at rate of RUB 30.69 to USD 1 based on the period average official CBR exchange rate as at December 31, 2003.*

(2) *Convenience translation into USD at rate of RUB 28.82 to USD 1 based on the period average official CBR exchange rate as at December 31, 2004.*

(3) *Convenience translation into USD at rate of RUB 27.96 to USD 1 based on the period average official CBR exchange rate as at June 30, 2005.*

Amtel Enterprises and Amtel Ventures Pte. Ltd. are controlled by the Company's indirect controlling shareholder, Mr. Sudhir Gupta. The Group acquired 100% of Amtel Enterprises in 2005, as a result of which it ceased to be considered related parties. ATSM is owned by certain individuals who at the time of the transactions were either shareholders or managers in Amtel-Povolzhye. Mr. Vinnik was a manager of one of the Group's subsequently discontinued subsidiaries that purchased tires for retail sale. Dorogi Rossii, Kontinentgroup, Shininvest and the other related-party purchasers listed above are entities with independent shareholdings from the Group, its shareholders, directors or officers, but are significantly influenced by, or act under the control of the Group or its indirect controlling shareholder, Mr. Gupta.

PURCHASES OF GOODS

The Group also purchases natural rubber, and other raw materials and supplies for its tire-making operations from certain related parties. During 2003 and 2004, the Group made purchases from related parties of RUB 175 million and RUB 287 million, respectively. For the first six months of 2005, purchases from Sherl amounted to RUB 27 million.

The following table shows the purchases by related parties for the periods indicated:

	As of December 31,				As of June 30,	
	2003 (RUB million)	**2003 (USD million)(1)**	**2004 (RUB million)**	**2004 (USD million)(2)**	**2005 (RUB million)**	**2005 (USD million)(3)**
Amtel-Nokian Tires	–	–	64	2.22	–	–
Dorogi Rossii	10	0.33	–	–	–	–
Kontinentgroup	14	0.46	–	–	–	–
Sherl	–	–	223	7.74	27	1
Shinexpo	151	4.92	–	–	–	–
Kraft	–	–	–	–	131	4.69
Total	175	–	283	–	158	–

(1) *Convenience translation into USD at rate of RUB 30.69 to USD 1 based on the period average official CBR exchange rate as at December 31, 2003.*

(2) *Convenience translation into USD at rate of RUB 28.82 to USD 1 based on the period average official CBR exchange rate as at December 31, 2004.*

(3) *Convenience translation into USD at rate of RUB 27.96 to USD 1 based on the period average official CBR exchange rate as at June 30, 2005.*

Amtel-Nokian Tires (**''ANT''**) is a joint venture entity, which is 50% owned by the Company, created with Nokian. In August 2004, the Company and Nokian agreed to terminate the joint venture and liquidate ANT. ANT is in the process of liquidation. Under the terms of the termination agreement with Nokian, the Group purchased tires manufactured as part of the joint venture. Dorogi Rossii, Kontinentgroup and the other related-party sellers listed above are entities with independent shareholdings from the Group, its shareholders, directors or officers, but are significantly influenced by, or act under the control of the Group or its indirect controlling shareholder, Mr. Sudhir Gupta.

PURCHASE AND SALES OF SHARES

Purchase of interests in subsidiaries
During 2003, the Group acquired additional shares in certain of its subsidiaries from related parties for the total consideration of RUB 378 million. In particular, the Group acquired:

- 36.05% of the shares of Amtel-Povolzhye from Vranova Holding Limited (**''Vranova''**), Zadov Enterprises Limited (**''Zadov''**) and Tanvald Enterprises Limited (**''Tanvald''**), bringing the Group's aggregate holdings in Amtel-Povolzhye to 86% of its total share capital;

- 24% of the shares of Amtel-Tchernozemye from Amtel Investment Pte. Ltd. (**''Amtel Investment''**), bringing the Group's aggregate holdings in Amtel-Tchernozemye to 100% of its total share capital;

- 17.1% of the shares of Amtel-Siberia from LLC Astel Finance (**''Astel Finance''**), bringing the Group's aggregate holdings in Amtel-Siberia to 100% of its total share capital.

Vranova, Zadov, Tanvald and Astel Finance are entities with independent shareholdings from the Group, its shareholders, directors or officers. In connection with the foregoing transactions, Vranova, Zadov, Tanvald and Astel Finance acted on behalf of the Group as intermediary purchasers of the shares in the above companies, having acquired the shares from numerous unrelated third-parties. Under certain formal and informal arrangements with the Group, Vranova, Zadov, Tanvald and Astel Finance had limited ability to control the acquired shares in the Group's subsidiaries, and, therefore, were considered related parties.

Amtel Investment is controlled by the Company's indirect controlling shareholder, Mr. Sudhir Gupta.

Sales to related parties

Amtelshinprom
In June 2004, the Group sold a 10% equity interest in LLC Amtelshinprom to Tanvald. In July 2004, the Group re-acquired the interest. The sale and repurchase was effected as part of the Group's restructuring of its corporate holding structure to facilitate the transformation of Amtelshinprom from a subsidiary of various Group companies, including Amtel-Povolzhye, into a direct subsidiary of OJSC Amtel-Vredestein.

Amtel-Povolzhye
In June 2004, the Group sold 15% of the shares in Amtel-Povolzhye to Vranova for RUB 238 million, subject to an option to repurchase the shares. Under the terms of the option, Vranova could not sell, mortgage or dispose of the interest and had limited ability to control the shares, and, therefore, was considered a related party for IFRS accounting purposes. In June 2005, the Group re-acquired the shares. The sale was effected to enable the Group to engage in certain transactions, such as the provision of securities or guarantees for the benefit of other Group companies.

OJSC Krasnoyarsky Zavod Rubber Technical Products
In June 2004, the Group disposed of its 51% interest in OJSC Krasnoyarsky Zavod Rubber Technical Products to a company related to the Group as part of the liquidation process of this company for no consideration. With the disposal of OJSC Krasnoyarsky Zavod Rubber Technical Products, the Group lost control over LLC Sibelast, a 100% owned subsidiary of OJSC Krasnoyarsky Zavod Rubber Technical Products. OJSC Krasnoyarsky Zavod Rubber Technical Products was engaged in the production of various rubber products which the Company considered not to be core to its business operations. The Company's management determined that sale of OJSC Krasnoyarsky Zavod Rubber Technical Products to a related party was more cost-efficient than its undertaking liquidation.

OJSC Supershina
In June 2004, the Group disposed of a 51% interest in OJSC Supershina to a company related to the Group as part of the liquidation process of this company. The Company's management determined that sale of OJSC Supershina to a related party was more cost-efficient than its undertaking liquidation.

Cypriot holding companies
In December 2004, the Group disposed of 100% of the shares of Vorsella Holdings Ltd., Soparvi Holdings Limited, Astley Holdings Limited and Geroc Holding Limited for a nominal price. Vorsella Holding Limited Ltd., Soparvi Holdings Limited, Astley Holdings Limited and Geroc Holding Limited were previously intermediate holding companies in the Group, which as part of the Company's corporate restructuring were eliminated. The Company's management determined that sale of these companies to a related party was more cost-efficient than their undertaking liquidation.

ACQUISITION OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

In December 2004, the Group acquired 99.8% of the shares in OJSC Chekhovskaya Basa Materialno-Technicheskogo Snabsheniya (currently LLC Amtel-Logistics Center) for RUB 389 million from unrelated third parties: Cezara Invest Ltd., Comron Enterprises Ltd., Finmarket Assets Inc., Forlindo Trade Corp. and Hazard Investments Ltd. The purchase price for the LLC Amtel-Logistics Center shares paid to Amtel Investment was determined by reference to the fair market value determined by an independent appraiser.

TRANSACTIONS WITH CONTROLLING SHAREHOLDER

The Company's indirect controlling shareholder, Mr. Sudhir Gupta has, from time to time, directly or indirectly engaged in various transactions with the Group that are characterized as withdrawals and contributions of funds to the Group. There can be no assurance that the controlling shareholder will not engage in similar transactions in the future.

The following table shows the amounts of such transactions with the controlling shareholder for the periods indicated:

	As of December 31,				As of June 30,	
	2003 (RUB million)	2003 (USD million)(1)	2004 (RUB million)	2004 (USD million)(2)	2005 (RUB million)	2005 (USD million)(3)
Withdrawals	461	15.02	209	7.25	28	1.00
Contributions	–	–	209	7.25	15	0.57

(1) *Convenience translation into USD at rate of RUB 30.69 to USD 1 based on the period average official CBR exchange rate as at December 31, 2003.*

(2) *Convenience translation into USD at rate of RUB 28.82 to USD 1 based on the period average official CBR exchange rate as at December 31, 2004.*

(3) *Convenience translation into USD at rate of RUB 27.96 to USD 1 based on the period average official CBR exchange rate as at June 30, 2005.*

LOANS TO RELATED PARTIES

As of September 30, 2005, the Company had USD 17.8 million on deposit with Amsterdam Trade Bank, an affiliate of OJSC Alfa Bank (**''Alfa Bank''**) which is also an affiliate of one of the Managers and one of the Company's Shareholders, Alfa Capital Holdings and one of the members of the Supervisory Board, Dominic Gualtieri, who is a managing director of OJSC Alfa Bank.

LOANS FROM RELATED PARTIES

Pursuant to a Loan Facility Agreement dated September 16, 2005, between the Group and Alfa Bank, Alfa Bank granted to the Group a loan of RUB 200 million bearing an interest rate of 12% per annum and maturing on May 16, 2006, and a loan of RUB 100 million bearing an interest rate of 12% per annum and maturing on

May 28, 2006. Security for the loans was provided by sureties given by Group companies having a total book value of RUB 567 million.

Pursuant to Loan Agreement No. KC-363/05, dated October 24, 2005, between the Company and Amsterdam Trade Bank, Amsterdam Trade Bank granted the Company a loan of EUR 20 million bearing interest at 9.59% per annum and maturing on June 1, 2007. The Company intends to enter into a further loan agreement with Amsterdam Trade Bank for EUR 30 million bearing an interest rate of 9.59% and having a two year maturity.

Both Alfa Bank and Amterdam Trade Bank are considered related parties as one of the members of the Company's Supervisory Board, Dominic Gualtieri, is a managing director of Alfa Bank, and an affiliate of one of the Managers, Alfa Capital Holdings.

LEASES

The Group has lease agreements with Mr. Sudhir Gupta for its administrative offices in Moscow, for which it paid RUB 10 million in 2003 and RUB 52 million in 2004. For the first six months of 2005, rental expenses were RUB 26 million.

In 2003 and 2004, Vredestein had several lease agreements for warehouse facilities and office space with its then ultimate shareholder, Vredestein Investment Consortium (VICO) N.V. (**''VICO''**), the seller in the Vredestein Acquisition. The total rent payments made to VICO were EUR 3.3 million, in each of in 2003 and 2004. A security deposit of EUR 3.3 million was held by VICO. While Vredestein continues to lease warehouse facilities from VICO, as of the Vredestein Acquisition, VICO is no longer considered a related party of Vredestein.

Description of Share Capital and Certain Requirements of Dutch Law

Set forth below is a description of the Company's Ordinary Shares and Preferred Shares, the material provisions of the Articles in effect on the date of this Prospectus and certain requirements of Dutch legislation, including a description of certain rights of the holders of Ordinary Shares and related provisions of the Articles and of Book 2 of the Dutch Civil Code (*Boek 2 van het Burgerlijk Wetboek*) (**''Book 2''**). This description does not purport to be complete and is qualified in its entirety by reference to the Articles and Book 2.

GENERAL

The Company was incorporated as Amtel Holdings Holland B.V., a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*), under the laws of the Netherlands by a notarial deed dated July 30, 2002. On September 2, 2004, the Company converted into a public limited liability company (*naamloze vennootschap*) named Amtel Holdings Holland N.V. On October 4, 2005, the Company changed its name to Amtel-Vredestein N.V. The address of the Company is Herengracht 469, 1017 BS Amsterdam, the Netherlands. The Company is registered in the Trade Register of the Chamber of Commerce and Industries for Amsterdam under the number 24337903.

Pursuant to Section 3 of the Articles, the objects of the Company are:

➤ The incorporation, acquisition and disposal of companies and businesses, the acquisition and disposal of interests in them and administering and having them administered, conducting the management or having the management conducted of companies and businesses and financing or having them financed;

➤ Acquiring, managing and operating intellectual and industrial property rights;

➤ Acquiring, managing and disposing of registered property and movables, stocks and shares and other instruments, borrowing or lending monies with or without collateral or personal security, providing security for the benefit of third parties and furnishing regular payments; and

➤ Performing all actions connected with the above or which might be compatible with achieving the above objects.

SHARE CAPITAL

At the date of this Prospectus, the Company's authorized share capital consists of 222,148,650 Ordinary Shares and 12,494,200 Preferred Shares with a nominal value of EUR 0.01 per share. The Company's issued share capital as of the date of this Prospectus consists of 53,588,570 issued and outstanding Ordinary Shares with a nominal value of EUR 0.01 per share, all of which are fully paid.

Changes in share capital

Year ended December 31, 2003

➤ On January 1, 2003, the Company's authorized share capital consisted of 8,000 Ordinary Shares, with a nominal value of EUR 10.00 per share and 2,000 non-cumulative Preferred Shares, with a nominal value of EUR 10.00 per share. The issued shares consisted of 2,001 Ordinary Shares, all of which were fully paid up.

➤ On October 28, 2003, the Company amended its Articles to convert its 2,000 non-cumulative Preferred Shares into 2,000 Preferred Shares, with a nominal value of EUR 10.00 per share. On the same date, pursuant to a Subscription Agreement, dated September 19, 2003 (the **''Templeton Subscription Agreement''**), the Company issued 80 Preferred Shares to Templeton Strategic Emerging Markets Fund LDC (**''Templeton''**) in exchange for U.S.$10,000,000.

➤ Consequently, at December 31, 2003, the Company's authorized share capital consisted of 8,000 Ordinary Shares, with a nominal value of EUR 10.00 per share and 2,000 Preferred Shares, with a nominal value of EUR 10.00 per share. The issued share capital consisted of 2,001 Ordinary Shares, with a nominal value of EUR 10.00, and 80 Preferred Shares, with a nominal value of EUR 10.00 per share.

Year ended December 31, 2004

➤ As of January 1, 2004, the Company's authorized share capital consisted of 8,000 Ordinary Shares, with a nominal value of EUR 10.00 per share and 2,000 Preferred Shares, with a nominal value of EUR 10.00 per share. The issued share capital consisted of 2,001 Ordinary Shares, with a nominal value of EUR 10.00 per share, and 80 Preferred Shares, with a nominal value of EUR 10.00 per share.

➤ On March 25, 2004, the Company issued an additional 40 Preferred Shares with a nominal value of EUR 10.00 per share to Templeton pursuant to the exercise of its option in exchange for U.S.$5,000,000.

➤ On April 29, 2004, the Company split the Shares at a 1,000-to-one ratio, resulting in an increase of the Company's authorized share capital to 8,000,000 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 2,000,000 Preferred Shares, with a nominal share of EUR 0.01 per share. All then-existing shareholdings were adjusted on a pro-rata basis. On the same date, pursuant to the terms of the Share Award Agreement, the Company issued 40,000 Ordinary Shares to Mr. Gurin as a reward and compensation for his services to the Group. Following this issuance, the issued share capital consisted of 2,041,000 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 120,000 Preferred Shares, with a nominal value of EUR 0.01 per share.

➤ On September 2, 2004, the Company converted from a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) into a public limited liability company (*naamloze vennootschap*). Book 2 of the Dutch Civil Code requires that a public limited liability company has an issued share capital of EUR 45,000. To comply with this requirement, the Company issued an additional 2,209,116 Ordinary Shares, with a nominal value of EUR 0.01 per share, and an additional 129,884 Preferred Shares, with a nominal value of EUR 0.01 per share, to then existing shareholders on a pro rata basis. The shares were paid out of surplus paid-in capital. The Company also increased its authorized share capital to EUR 225,000, consisting of 20,500,000 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 2,000,000 Preferred Shares with a nominal value of EUR 0.01 per share.

➤ On September 2, 2004, Mr. Gurin transferred 83,295 Ordinary Shares with a nominal value of EUR 0.01, to Stichting Administratiekantoor Amtel Holdings Holland registered at Amsterdam (the **''Foundation''**), for Dutch depositary receipts at a one-to-one ratio. On the same day Amtel Luxembourg SA transferred 4,166,821 Ordinary Shares with a nominal value of EUR 0.01 to the Foundation for Dutch depositary receipts at a one to one ratio.

➤ On December 16, 2004, the Foundation issued an additional 128,571 Dutch depositary receipts for Ordinary Shares to CIFC in exchange for U.S.$10,000,000, and the corresponding Ordinary Shares at a one-to-one ratio were issued to the Foundation on the same day. On the same day, the Company granted to CIFC an option to purchase 64,286 additional Dutch depositary receipts for Ordinary Shares for U.S.$5,000,000 pursuant to the terms of an Option Agreement, dated December 15, 2004 (the **''CIFC Option Agreement''**), and issued the CIFC Warrant granting CIFC the right to purchase 64,286 additional Dutch depositary receipts for Ordinary Shares for U.S.$5,000,000 at any time up to December 15, 2006. The CIFC Warrant may be exercised at any time upon 10 business days written notice.

➤ As of December 31, 2004, the Company had an authorized share capital consisting of 20,500,000 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 2,000,000 Preferred Shares, with a nominal share of EUR 0.01 per share. The Company's issued share capital consisted of 4,378,687 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 249,884 Preferred Shares, with a nominal value of EUR 0.01 per share.

Six months ended June 30, 2005

➤ As of January 1, 2005, the Company had an authorized capital consisting of 20,500,000 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 2,000,000 Preferred Shares, with a nominal share of EUR 0.01 per share. The Company's issued share capital consisted of 4,378,687 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 249,884 Preferred Shares, with a nominal value of EUR 0.01 per share.

➤ On March 3, 2005, CIFC exercised its option pursuant to the CIFC Option Agreement and the Foundation issued to CIFC an additional 64,286 Dutch depositary receipts for Ordinary Shares with a nominal value of EUR 0.01 per share in exchange for U.S.$5,000,000. The corresponding Ordinary Shares at a one to one ratio have been issues to the Foundation at the same day.

- On June 23, 2005, to effect a further ten-to-one share split in the share capital, the Company amended its Articles resulting in an increase of the Company's authorized share capital to 222,184,650 Ordinary Shares with a nominal value of EUR 0.01 per share and 12,494,200 Preferred Shares with a nominal value of EUR 0.01 per share. At the same date, to effect the ten-to-one share split in the issued share capital, the Company issued an additional 39,986,757 Ordinary Shares, with a nominal value of EUR 0.01 per share, and an additional 2,248,956 Preferred Shares, with a nominal value of EUR 0.01 per share, to then existing shareholders on a pro-rata basis. The shares were paid out of surplus paid-in capital.

- On June 30, 2005, the Foundation issued 4,281,430 Dutch depositary receipts for Ordinary Shares with a nominal value of EUR 0.01 per share to Alfa Capital Holdings in exchange for USD 45,000,000 and 2,378,570 Dutch depositary receipts for Ordinary Shares with a nominal value of EUR 0.01 per share to Aranda Investments Pte Ltd. in exchange for USD 25,000,000. The corresponding Ordinary Shares at a one-to-one ratio have been issued to the Foundation at the same day.

- On June 30, 2005, the Company had an authorized capital consisting of 222,148,650 Ordinary Shares, with a nominal value of EUR 0.01 per share, and 12,494,200 Preferred Shares, with a nominal share of EUR 0.01 per share. The Company's issued share capital consisted of 51,089,730 Ordinary Shares, with a nominal value of EUR 0.01, and 2,498,840 Preferred Shares, with a nominal value of EUR 0.01. In addition, CIFC retains the Warrant which, if exercised, would require the Company to issue 64,286 Ordinary Shares, with a nominal value of EUR 0.01 per share, the corresponding Dutch depositary receipts at a one-to-one ratio will be issued to the existing holders of Dutch depositary receipts.

From June 30, 2005 to the date of this Prospectus

- On October 4, 2005, the Company converted all issued 2,498,840 Preferred Shares held by Templeton into Ordinary Shares at a one-to-one ratio, pursuant to the exercise of Templeton's conversion right.

- On October 12, 2005, the Company and its shareholders decided to terminate its depositary facility with the Foundation, which held Ordinary Shares under trust administration and issued to shareholders Dutch depositary receipt at a one-to-one ratio.

- On October 21, 2005, all outstanding Dutch depositary receipts for Ordinary Shares were cancelled by the Foundation in exchange for which all outstanding Ordinary Shares were transferred from the Foundation to the respective holders of the corresponding Dutch depositary receipts.

For further information on changes in the Company's share capital for the past two years, see ''Combined and Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2003 and 2004'' on page 8 of the Group Annual Financial Statements and ''Combined and Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2005'' on page 7 of the Group Interim Financial Statements.

Except as disclosed in this section, there has been no change in the amount of issued share capital of the Company and no material change in the capital of any member of the Group in the two years preceding the date of this Prospectus.

Form and transfer of Shares

Both the Ordinary Shares and any Preferred Shares of the Company are in registered form. They are available in the form of an entry in the share register of the Company without the issuance of a share certificate.
Subject to Dutch law and the Articles, shares in registered form can only be transferred by a written deed of transfer and the acknowledgement of the transfer by the Company, all in accordance with the provisions of Dutch law and the Articles.

Issue of Shares and preemption rights

Shares or rights, warrants or options thereto may be issued pursuant to a resolution adopted by the General Meeting or by another corporate body of the Company designated to do so by a resolution of the General Meeting for a specified period, not exceeding five years. If another corporate body is delegated the authority to issue shares, the resolution must specify the number of shares that may be issued and the period during which the delegation will be effective. The delegation may be extended for periods not exceeding five years. Unless specified otherwise, the delegation is irrevocable. As long as another corporate body is authorized to issue shares, the General Meeting may not resolve to issue shares. When resolving to issue shares, the General Meeting or the designated corporate body must determine the price and other terms and conditions of issue. Unless permitted by Dutch law, shares may not be issued below their nominal value.

Subject to Dutch law and the Articles, shareholders have non-transferable preemption rights to subscribe to shares upon the issue of new shares in proportion to the aggregate amount of shares they hold. Such preemption rights do not apply to the issuance of shares for a non-cash contribution. According to Dutch law and the Articles, this preemption right does not apply in respect of any issuance of shares to the employees of the Company or employees of a group company (*groepsmaatschappij*) of the Company.

The Company must announce any issue of shares with preemption rights for shareholders and the period during which these rights can be exercised in the Dutch Official Gazette (*Staatscourant*) and in a Dutch daily newspaper with nation wide distribution unless all shares are registered shares and all shareholders have been notified in writing at the designated address of such shareholders and provided no depositary receipts for shares (''certificaten van aandelen'' as referred to in Book 2 of the Dutch Civil Code) have been issued with the co-operation of the Company and no shares in the Company have been pledged or are subject to a right of usufruct. The period during which preemption rights can be exercised must be at least two weeks starting from the date on which the issue is announced in the Dutch Official Gazette (*Staatscourant*). Preemption rights will expire if they are not exercised within the exercise period.

Preemption rights may be restricted or excluded by resolution of the General Meeting. The proposal for such a resolution must contain the reasons for taking this decision and the proposed issue price for the shares. If another corporate body of the Company has been delegated the authority to issue shares, the General Meeting may authorize such corporate body to restrict or exclude preemption rights for a period of no more than five years. This period may be extended for successive periods not exceeding five years. Unless the authorization provides otherwise, it cannot be revoked. A decision to exclude preemption rights with respect to the issue of Preferred Shares (whether pursuant to a resolution of the General Meeting or pursuant to a decision of the corporate body to which the General Meeting has delegated authority to issue shares and exclude preemption rights) must be separately approved by a meeting of the holders of Preferred Shares, if any.

The authority to issue shares up to the total amount of authorized shares of the Company and to grant rights to subscribe for shares, and the authority to exclude the preemption rights of shareholders in connection therewith, has, as at the date of this Prospectus, been delegated to the Supervisory Board of the Company for a period of five years ending at April 14, 2010.

Repurchase by the Company of its own shares

Subject to authorization by the General Meeting and the provisions of Dutch law and the Articles, the Executive Board may cause the Company to acquire fully paid up shares in its own share capital or depositary receipts thereof, provided that (i) the Company's equity minus the acquisition price is not less than the aggregate amount of its paid and called-up part of the share capital and the reserves which must be maintained pursuant to Dutch law or the Articles; and (ii) the aggregate nominal value of the shares (or depositary receipts thereof) in its share capital acquired, held or held in pledge by the Company or by a subsidiary will not exceed one-tenth of the Company's issued share capital. These restrictions do not apply to the acquisition of shares for free.

The Executive Board may be authorized to acquire shares in the Company's share capital for a maximum period of 18 months. In its resolution, the General Meeting must provide the number of shares that the Company may acquire in its own share capital, how these shares may be acquired and the price range to be observed. The disposal of shares held by the Company shall be effected pursuant to a resolution of the General Meeting, insofar as the General Meeting has not designated another corporate body of the Company in this respect. Such resolution shall also stipulate the conditions of the disposal.

Shares held by the Company or a subsidiary are not taken into account for determining whether a quorum is present at a General Meeting. They may not be voted and they do not entitle the Company or the subsidiary to distributions.

The Executive Board has not been authorized to acquire shares in the Company's own capital.

Capital reduction

The General Meeting may resolve to reduce the issued share capital by canceling shares or by reducing the nominal value of shares by an amendment to the Articles. The present nominal value of the shares may not be reduced, since according to Dutch law the minimal nominal value of shares amounts to one eurocent (EUR 0.01), which is the lowest possible nominal value under Dutch law. Dutch law and the Articles contain detailed provisions regarding (partial) repayment of shares, release from the obligation to pay up shares and cancellation of shares.

Conversion of Preferred Shares
Any Preferred Shares can be converted into Ordinary Shares at the request of the holder of Preferred Shares and at the request of the Company. The resolution to convert will be adopted by the Executive Board, which resolution must also be approved by the meeting of holders of Preferred Shares. The Executive Board shall determine the conversion ratio and the other conversion conditions, which must be approved by the meeting of holders of Preferred Shares to be effective. Conversion shall be made in respect of all issued Preferred Shares and not only part of them. In the case of the conversion of all the Preferred Shares into Ordinary Shares the balance of the reserve account and the balance of the share premium reserve, to which the holders of Preferred Shares were entitled after a possible decrease of this share premium reserve as a result of the conversion due to an increase of the nominal value of the Shares as a result of the conversion ratio, will be terminated and the balance will be added to the general profit reserve and/or the general share premium reserve of the Company.

At the date of this Prospectus, no Preferred Shares are outstanding. The Preferred Shares previously issued to Templeton were converted on October 4, 2005.

GENERAL MEETING

General Meetings may be convened in Amsterdam, The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol Airport). Annual General Meetings must be held within six months after the end of the financial year. Notice of a General Meeting must be given not less than the fifteenth day before the date of the meeting. The agenda for the annual General Meeting must contain, among other items placed on the agenda in accordance with Dutch law and the Articles, the following subjects for discussion:

- Discussion of the annual report;
- Discussion and adoption of the annual accounts;
- Determination of dividend;
- Release of the Executive Board members from liability;
- Release of the Supervisory Board members from liability;
- The filling of any vacant seats on the Executive Board or the Supervisory Board;
- The appointment of any accountant in connection with the financial affairs of the Company;
- Other subjects presented for discussion by the Supervisory Board or the Executive Board and announced with due observance of the provisions of the Articles, as for instance with respect to the designation of a body of the Company competent to issue Shares and with respect to the authority of the Executive Board to cause the Company to acquire Shares in its own capital or depositary receipts therefor.

The agenda contains the items selected by the person(s) convening the meeting. In addition, unless this would violate an important interest of the Company, the agenda contains the items requested in writing by one or more shareholders, or other persons entitled to attend General Meetings, alone or together representing at least one per cent of the issued share capital or representing the amount of market capitalization set by law (at present being EUR 50 million). Such request must have been received by the Company not later than on the sixtieth day prior to the date of the meeting.

Extraordinary General Meetings shall be convened whenever the Executive Board or the Supervisory Board deems such necessary. In addition, shareholders who individually or together hold at least one tenth of the total issued capital, may, stating the subjects to be discussed, request the Executive Board and the Supervisory Board to convene an extraordinary General Meeting. If the Executive Board or the Supervisory Board has not convened a meeting in such a manner that the meeting can be held within six weeks after the request, the persons who made the request shall be authorized to convene a meeting themselves, subject to the applicable Book 2 provisions of the Dutch Civil Code.

Unless the Supervisory Board has designated another person to act as chairman of a General Meeting, the General Meeting shall be presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board; in the event that the latter is also absent, the Supervisory Board members present shall elect a chairman from their number. If the chairman has not been appointed in accordance with the previous sentence, the meeting shall itself choose a chairman. Until that moment a member of the Executive Board shall act as chairman and in the absence of such a member, the eldest person present at the meeting shall act as chairman.

All shareholders and other persons entitled pursuant to Dutch law or the Articles to attend and/or vote at General Meetings are entitled to attend General Meetings, to address the General Meeting and if applicable to vote. The chairman of the General Meeting shall decide on the admittance of persons other than those mentioned in the previous sentence. Shareholders may be represented at General Meetings by written proxy duly executed, provided that the proxy has been received by the Executive Board no later than the prescribed day as stated in the notice convening a General Meeting and in accordance with the Articles and Dutch law. Under the Articles, the Executive Board is authorized to set a record date as referred to in Section 119 of Book 2.

Members of the Executive Board and the Supervisory Board are authorized to attend General Meetings and have the right to give advice in the General Meeting.

Resolutions of shareholders may also be adopted in writing without recourse to a General Meeting, provided they are adopted by unanimous vote representing the entire issued capital, and provided that no depositary receipts for shares have been issued with the co-operation of the Company and no shares in the Company have been pledged or are subject to a right of usufruct.

VOTING RIGHTS

Each share confers the right to cast one vote at the General Meeting. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of the Netherlands or foreign owners to hold or vote the shares, other than those also imposed on residents. In order to be validly passed, resolutions need to be adopted by at least a simple majority of the votes cast, unless Dutch law or the Articles prescribe a greater majority or a minimum representation.

If there is no simple majority of votes on a resolution for the appointment of persons, a second ballot shall be taken. If there is still no simple majority, further ballots shall be taken until either:

➤ One person obtains a simple majority; or

➤ There is a tie in votes between two persons.

Such further voting (not including the second free ballot) shall be between the persons voted upon in the preceding ballot except for the person obtaining the lowest number of votes in that preceding ballot. If more than one person obtained the lowest number of votes in the preceding ballot, lots shall be drawn to decide which of those persons is to withdraw from the next ballot. In the event of a tie in votes between two persons, it shall be decided by drawing of lots which of the two is elected. In the event of a tie in votes on matters other than the election of persons, the motion shall be rejected.

Preferred Shares have full voting rights and powers equal to the voting rights and powers of holders of Ordinary Shares.

STATUTORY FINANCIAL STATEMENTS AND STATUTORY AUDITOR

The financial year of the Company coincides with the calendar year. The Executive Board must prepare the annual accounts within five months after the end of the financial year, all in accordance with title 9 of Book 2. The five month period may be extended by not more than six months by the General Meeting for exceptional circumstances. The annual accounts must be made available for inspection by shareholders and holders of depositary receipts at the offices of the Company within the same period.

Subject to Dutch law, the annual accounts must be accompanied by an auditors' certificate, an annual report and certain other mandatory information. The General Meeting shall appoint an accountant as referred to in Section 303 of Book 2, to audit the annual accounts. The General Meeting shall adopt the annual accounts.

Determination of, without limitation, such matters as the amount of profit and loss, the size of the distributable reserves, and whether it is allowed to repurchase shares or depositary receipts issued for shares, must be made on the basis of the Company's statutory annual accounts.

PROFIT AND LOSS

After adoption of the annual accounts which show that a distribution of profits is allowed, the General Meeting, on proposal of the Supervisory Board, by a resolution adopted with a majority of 75% of the votes cast, shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

The Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its paid and called-up part of the share capital and the reserves to be maintained pursuant to Dutch law or the Articles. Distribution of profits shall take place after the adoption of the annual accounts. A loss may only be applied against reserves maintained pursuant to Dutch law to the extent permitted by Dutch law and the Articles. On proposal of the Supervisory Board, the General Meeting may resolve to pay an interim dividend, subject to the provisions of Dutch law to the extent that its equity exceeds the total amount of its paid and called-up part of the share capital and the reserves to be maintained pursuant to Dutch law or the Articles, as appears from interim financial statements to be signed by all members of the Executive Board. The General Meeting may, subject to the provisions of Dutch law and the Articles, resolve to make payments to the charge of any reserve which need not to be maintained by virtue of Dutch law or the Articles, provided that the resolution to make payments to the charge of the profit reserve only may be adopted at the proposal of the Supervisory Board by a resolution adopted with a majority of 75% of the votes cast.

There is no specific rate of dividend for Ordinary Shares of the Company. Dividends on Preferred Shares are fixed at 8% of the amount paid up including the share premium reserve and will be added to the reserve account in respect of these Preferred Shares. If the profits in any financial year are not sufficient to add the fixed dividend referred to above to the reserve account of the Preferred Shares, the remainder will be supplemented in the following years from the annual profits in priority to applying a dividend to the reserve account of the Ordinary Shares or before profits are added to the free reserves. The remaining profits are added to the reserve account of the Ordinary Shares insofar as the General Meeting has not resolved to reserve the amounts otherwise. Profits not reserved are not further added to the reserve account of Preferred Shares. Dividends are payable within one month after being determined by the General Meeting, subject to an extension of this period as may be determined by the Executive Board. A claim of a shareholder for payment of a dividend must be made within five years of the relevant payment date otherwise it will lapse and the dividend amount will revert to the Company.

MERGER, DEMERGER, AMENDMENT OF ARTICLES, DISSOLUTION

When a proposal of the Executive Board to merge, demerge, amend the Articles or to dissolve the Company is to be made to the General Meeting, this must be mentioned in the notification of the General Meeting and if it regards an amendment of the Articles, a copy of the proposal including the text of the proposed amendment must at the same time be deposited and held available free of charge at the Company's office for inspection by the shareholders and the holders of depositary receipt of Ordinary Shares until the end of the meeting. The respective Executive Board proposal shall need the approval of the Supervisory Board.

LIQUIDATION

The liquidation of the Company's assets will be carried out by the Executive Board and under the supervision of the Supervisory Board in conjunction with a professional liquidator unless otherwise resolved by the General Meeting. The General Meeting shall approve the fees payable to the professional liquidator and the remuneration payable to the members of the Supervisory Board and the Executive Board. The balance of the Company remaining after payment of debts shall first be distributed to the holders of Preferred Shares for the amount paid up on these shares and any arrears of dividend not yet paid and then be distributed to the shareholders in proportion to the aggregate nominal amount of their Ordinary Shares.

BOARD PRACTICES

Supervisory Board

Under the Articles, the Supervisory Board *(Raad van Commissarissen)* supervises the management of the Executive Board and the general course of affairs of the Company and the business connected with it. The Supervisory Board shall assist the Executive Board by giving advice. In performing their duties, the Supervisory Board members shall act in the best interests of the Company and its business. Certain resolutions of the Executive Board identified in the Articles require the approval of the Supervisory Board.

The Supervisory Board shall elect a chairman from among its members, and a vice-chairman who shall take the place of the chairman in the latter's absence. The Supervisory Board shall meet whenever any one Supervisory Board member, or the Executive Board deems necessary.

The Supervisory Board adopts resolutions by a majority of the votes cast at a meeting at which at least half of the members of the Supervisory Board in office are present or represented. The Supervisory Board may adopt resolutions in writing without holding a meeting, provided that the proposed resolution has been submitted to all the Supervisory Board members, none of them opposes this manner of adopting a resolution and the majority of the members have voted in favor of the proposed resolution.

The General Meeting shall appoint the members of the Supervisory Board. The Supervisory Board shall nominate one or more candidates for each vacant seat. A nomination or recommendation to appoint a Supervisory Board member shall state the candidate's age, his profession, the number of Shares he holds, if any, and the positions he holds or has held, insofar as these are relevant for the performance of the duties of a Supervisory Board member. Furthermore, the names of the legal entities of which he is also a member of the supervisory board(s) shall be indicated; if those include legal entities which belong to the same group, a reference to that group will be sufficient. The nomination or recommendation must state the reasons on which it is based. In a proposal for reappointment, the Supervisory Board shall take into account the performance of the nominated Supervisory Board member in the past period. A resolution of the General Meeting to appoint a Supervisory Board member in accordance with a nomination made by the Supervisory Board shall require a simple majority of the votes cast. If the nomination by the Supervisory Board with respect to a vacant seat consists of a list of two or more candidates, the vacant seat must be filled by an election of a person from the list of candidates. A resolution of the General Meeting to appoint a Supervisory Board member other than in accordance with a nomination by the Supervisory Board shall require a simple majority of the votes cast representing more than one-third of the Company's issued capital. A new meeting as referred to in Section 120 subsection 3 of Book 2 cannot be convened.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Supervisory Board. A resolution of the General Meeting to suspend or remove a Supervisory Board member other than in accordance with a proposal of the Supervisory Board requires a simple majority of the votes cast representing more than one-third of the Company's issued capital. The Supervisory Board determines the number of members of the Supervisory Board. The number of members of the Supervisory Board shall be at least three, but not exceeding ten. The General Meeting determines the remuneration of the members of the Supervisory Board.

At least once a year, the Executive Board shall inform the Supervisory Board in writing about the general course of affairs in respect of the general, strategic and financial risks and the control and monitoring mechanism *(beheers- en controlesysteem)* of the Company.

Executive Board

Pursuant to the Articles, the Executive Board *(Raad van Bestuur)* is responsible for the management of the Company. Pursuant to the Articles, two members of the Executive Board with the Title A and B are jointly authorized to represent the Company. The Executive Board may, subject to the approval of the Supervisory Board, appoint officers with general or limited power to represent the Company *(procuratiehouders).* Each of these authorized representatives shall be able to represent the Company with due observance of any restrictions imposed on him. In the event of a conflict of interest between the Company and an Executive Board member, the Company shall be represented by an Executive Board member or a Supervisory Board member appointed for that purpose by the Supervisory Board. The General Meeting shall be authorized at all times to appoint one or more other persons to represent the Company in the event of a conflict of interest with an Executive Board member.

The Executive Board may adopt resolutions with a simple majority in a meeting or unanimously in writing without holding a meeting provided that the proposed resolution has been submitted to all the Executive Board members, none of them opposes this manner of adopting a resolution and the majority of the members have voted in favor of the proposed resolution. Resolutions of the Executive Board having an important impact on the identity or nature of the Company or its business shall be subject to the prior approval of the General Meeting. Further, certain other resolutions of the Executive Board are subject to the prior approval of the Supervisory Board.

Pursuant to the Articles, the management of the Company shall be constituted by an Executive Board consisting of a number of members determined by the Supervisory Board. The Supervisory Board may appoint a member of the Executive Board with the title A or B. The General Meeting shall appoint the members of the Executive Board. The Supervisory Board shall nominate one or more candidates for each vacant seat and, if no Executive Board members are in office, it will do so as soon as reasonably possible. A nomination or recommendation to appoint an Executive Board member shall state the candidate's age and the positions he holds or has held, insofar as these are relevant for the performance of the duties of an Executive Board member. The nomination and recommendations must state the reasons on which they are based. A resolution of the General Meeting to appoint an Executive Board member in accordance with a nomination by the Supervisory Board shall require a simple majority of the votes cast. If the nomination by the Supervisory Board with respect to a vacant seat consists of a list of two or more candidates, the vacant seat must be filled through an election of a person from the list of candidates. A resolution of the General Meeting to appoint an Executive Board member other than in accordance with a nomination by the Supervisory Board shall require a simple majority of the votes cast representing more than one-third of the Company's issued capital. A new meeting as referred to in Section 120 subsection 3 of Book 2 cannot be convened.

Members of the Executive Board shall be appointed for an indefinite period. The Supervisory Board shall determine the titles of the members of the Executive Board. One of the members of the Executive Board shall have the title of Chief Executive Officer and another member of the Executive Board shall have the title of Chief Financial Officer (**''CFO''**). The Supervisory Board shall determine the remuneration and further conditions of employment for each member of the Executive Board, within the remuneration policy adopted by the General Meeting on proposal of the Supervisory Board. The granting of options to members of the Executive Board is subject to the approval of the General Meeting. Both individuals and legal entities can serve as members of the Executive Board.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Executive Board. A resolution of the General Meeting to suspend or remove an Executive Board member, other than in accordance with a proposal of the Supervisory Board, requires a simple majority of the votes cast representing more than one-third of the Company's issued capital. In addition, the Supervisory Board is entitled to suspend members of the Executive Board.

INFORMATION TO GENERAL MEETING

Pursuant to the relevant provisions of Book 2 and the Executive Board Rules, the Executive Board must provide the General Meeting with all information that it may require, unless important interests of the Company and any law, rule or regulation applicable to the Company would prevent it from doing so. Pursuant to the relevant provisions of Book 2 and the Supervisory Board Rules, the Supervisory Board must inform the General Meeting by means of a circular for shareholders of all facts and circumstances relevant to items on the agenda. It must also provide the General Meeting with all information that the latter may require concerning an item on the agenda, unless important interests of the Company or any law, rule or regulation applicable to the Company would prevent it from doing so. Circulars for shareholders will be posted on the Company's website.

POTENTIAL MANDATORY OFFER RULES

Dutch law does currently not provide for mandatory takeover bids. Dutch rules on mandatory takeovers are expected to become effective in the first half of 2006. The directive of the European Parliament and of the Council of the European Union (the **''Council''**) on takeover bids (the **''Take-Over Directive''**) of April 2004 must be implemented by each European Union member state not later than May 20, 2006. The Take-Over Directive applies to all companies governed by the laws of an European Union member state of which all or some securities are admitted to trading on a regulated market in one or more member states. Pursuant to the Take-Over Directive, the member states should ensure protection of minority shareholders by obliging the person that acquires control of a public company to make an offer to all the holders of that company's securities for all their holdings at an equitable price. The laws of the member state in which the company has its registered office will determine the percentage of voting rights that is regarded to confer control over the company. On March 31, 2005, the Dutch government published its draft proposal for the implementation of the Take-Over Directive (the **''Proposal''**). Pursuant to the Proposal, any shareholder or group of shareholders acting in concert who holds 30% or more of the outstanding share capital of a Dutch public company or who could exercise, directly or indirectly, 30%. of the votes in the shareholders meeting of such company is considered to control such company. Pursuant to the Proposal, shareholders with controlling interests as of the date on which the new legislation enters into force will be exempt from the obligation to make a takeover bid.

DUTCH SQUEEZE-OUT PROCEEDINGS

If a legal entity (the **''Controlling Entity''**) holds in total 95% of a company's issued share capital by nominal value for their own account, Dutch law permits the Controlling Entity to acquire the remaining ordinary shares in the Controlled Entity by initiating proceedings against the holders of the remaining ordinary shares. The price to be paid for such ordinary shares will be determined by the Enterprise Chamber of the Amsterdam Court of Appeal. A shareholder who holds less than 95% of the ordinary shares, but in practice controls the Controlled Entity's general meeting of shareholders, could attempt through a legal merger with another company or by subscribing to additional ordinary shares in the Controlled Entity (for example, in exchange for a contribution of part of its own business) or through other form of restructuring to raise its interest to 95% or to obtain through other means full ownership of the business of the Controlled Entity.

SIGNIFICANT OWNERSHIP OF SHARES

Current regime

Holders of Shares or GDRs may be subject to reporting obligations under the Dutch 1996 Act on Disclosure of Holdings in Listed Companies 1996 *(Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996)* (the **''Disclosure Act''**) and the Act on the Supervision of the Securities Trade 1995 *(Wet toezicht effectenverkeer 1995)* (the **''Dutch Securities Act''**). Pursuant to the Disclosure Act, any person who holds an interest in the capital or voting rights of the Company at the time of the GDRs being admitted to trading on the London Stock Exchange, must give written notice to the Company and, by means of a standard form, the AFM within four weeks of the GDRs being admitted to listing, unless such person holds less than 5% in the capital or voting rights of the Company. In addition, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of the Company must immediately give written notice to the Company and, by means of a standard form, the AFM if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person falls within a different percentage range as compared with the percentage range applicable to the capital interest or voting rights held by such person prior to the acquisition or disposal. The percentage ranges referred to in the Disclosure Act are 0% to 5%, 5% to 10%, 10% to 25%, 25% to 50%, 50% to 66.66% and 66.66% or more.

Pursuant to section 2a of the Disclosure Act, every member of the Executive Board of the Company and every member of the Supervisory Board of the Company must notify the AFM and the Company (a) immediately after the GDRs are admitted to listing on the London Stock Exchange, of the number of shares he holds in the Company and the number of votes he is entitled to cast in respect of the issued capital of the Company, and subsequently (b) of each change in the number of shares he holds in the Company and each change in the number of votes he is entitled to cast in respect of the issued capital of the Company immediately after such change, as well as of the number of shares in the capital of the companies affiliated with the Company that he has at his disposal, as well as of the number of votes that he may cast in respect of the issued capital of those companies. In case a member of the Executive Board of the Company is a legal entity, the above notification obligations will apply mutatis mutandis to the natural persons determining the day-to-day policy of such legal entity and to the natural persons supervising the management policy and the general course of affairs thereof.

Expected new regime

On July 3, 2003, a draft bill to replace the Disclosure Act was submitted to the Second Chamber of the Dutch Parliament. According to the explanatory notes to the draft bill, it is anticipated that the following percentage ranges will be introduced: 0% to 5%, 5% to 10%, 10% to 15%, 15% to 20%, 20% to 25%, 25% to 30%, 30% to 50%, 50% to 75% and 75% or more.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must be taken into account:

- Shares (or depositary receipts for Shares or GDRs) directly held or acquired or disposed of by any person;
- Shares (or depositary receipts for Shares or GDRs) held or acquired or disposed of indirectly held by such person (e.g. through a company);
- Shares (or depositary receipts for Shares or GDRs) held by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement; and
- Shares (or depositary receipts for Shares or GDRs) that such person or third party directly or indirectly may acquire pursuant to any option or other right to acquire Shares (or depositary receipts for Shares).

Special rules apply to the attribution of Shares (or depositary receipts for Shares or GDRs) that are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of Shares (or depositary receipts for Shares or GDRs) can also be subject to the reporting obligations, if such person has, or can acquire, the right to vote the Shares or, in case of depositary receipts or GDRs, the underlying Shares. The acquisition or (conditional) voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if such pledgee or beneficial owner were the legal holder of the Shares (or depositary receipts for the Shares or GDRs).

INSIDER TRANSACTIONS DISCLOSURE OBLIGATIONS

Once the Company has made a request for admission to trading on the London Stock Exchange, its insiders within the meaning of Section 47a of the Dutch Securities Act are obliged to notify the AFM if they carry out or cause to be carried out, for their own account, a transaction in Shares of the Company or in securities whose value is at least in part determined by the value of the Shares. Insiders of the Company within the meaning of Section 47a of the Dutch Securities Act are:

- Members of the Executive Board;
- Members of the Supervisory Board;
- Persons who have a managerial position within the Company and in that capacity are authorized to make decisions that have consequences for the future development and prospects of the Company and can have access to inside information on a regular basis;
- Spouses, registered partners or life partners of the persons referred to in the first three bullet points above; or other persons who live together with these persons as if they were married or as if they had registered their partnership,
- Children of the persons mentioned referred to in the first three bullet points above who fall under their authority or children who are placed under the guardianship *(''curatele'')* of these persons;
- Other relations by blood or marriage of the persons referred to in the first three bullet points above who, on the date of the transaction, have shared a household with these persons for at least one year; and
- Legal entities, trusts within the meaning of Section l(c) of the Act on the Supervision of Trust Offices, or partnerships:
  - The managerial responsibility for which lies with a person referred to in the first six bullet points above;
  - That are controlled by such a person;
  - That have been incorporated or set up for the benefit of such a person; or
  - Whose economic interests are in essence the same as those of such a person.

This notification must be made no later than the fifth working day after the transaction date on a form drawn up by the AFM. In case a member of the Executive Board or Supervisory Board has a duty of notification under both the Disclosure Act as described above under (b) and the Dutch Securities Act, a notification to the AFM within the meaning of the Disclosure Act is sufficient. The notification obligation within the meaning of section 47a of the Dutch Securities Act does not apply to transactions based on a written discretionary management agreement (*overeenkomst van lastgeving*) with an investment manager (*vermogensbeheerder*) as described in section 8 of the Dutch Market Abuse Decree (*Besluit Marktmisbruik*). The notification pursuant to section 47a of the Dutch Securities Act may be delayed until the moment that the value of the transactions performed for that person's own account, together with the transactions carried out by the persons associated with that person, reach or exceed the amount of EUR 5,000 in the calendar year in question.

NON-COMPLIANCE WITH THE REPORTING OBLIGATIONS UNDER THE DISCLOSURE ACT OR THE DUTCH SECURITIES ACT IS AN ECONOMIC OFFENSE AND COULD LEAD TO CRIMINAL FINES, ADMINISTRATIVE FINES, IMPRISONMENT OR OTHER SANCTIONS. IN ADDITION, NON-COMPLIANCE WITH THE REPORTING OBLIGATIONS UNDER THE DISCLOSURE ACT MAY LEAD TO CIVIL SANCTIONS, INCLUDING (I) A GENERAL SUSPENSION OF VOTING RIGHTS IN RESPECT OF THE SHARES, OR SHARES UNDERLYING ANY GDRS OR OTHER DEPOSITARY RECEIPTS, FOR A PERIOD OF UP TO THREE YEARS; AND/OR (II) A COURT ORDER PROHIBITING A PERSON FROM (ACQUIRING OR) EXERCISING VOTING RIGHTS IN RESPECT OF THE SHARES, OR SHARES UNDERLYING ANY GDRS OR OTHER DEPOSITARY RECEIPTS, FOR A PERIOD OF UP TO FIVE YEARS.

Terms and Conditions of the GDRs

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the GDRs, and will be endorsed on each GDR certificate:

The Global Depositary Receipts (**''GDRs''**) represented by this certificate are each issued in respect of one ordinary share, par value EUR 0.01 (the **''Shares''**), of Amtel-Vredestein N.V. (the **''Company''**) pursuant to and subject to an agreement, dated on or about the Closing Date, between the Company and The Bank of New York in its capacity as depositary (the **''Depositary''**) for the GDR facility (the **''Facility''**) (such agreement, as amended from time to time, being hereinafter referred to as the **''Deposit Agreement''**). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Securities Services as Custodian (the **''Custodian''**) to receive and hold on its behalf any relevant documentation respecting certain Shares (the **''Deposited Shares''**) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the **''Deposited Property''**). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the **''Conditions''**), references to the **''Depositary''** are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the **''Custodian''** are to ING Securities Services or any other custodian from time to time appointed under the Deposit Agreement and references to the **''Main Office''** mean, in relation to the relevant Custodian, its head office in the city of Amsterdam or such other location of the head office of the Custodian in the Netherlands as may be designated by the Custodian with the approval of the Depositary (if outside the city of Amsterdam) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Master GDR, evidencing GDRs, (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in ''Summary of Provisions Relating to the GDRs while in Master Form'' for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the **''Holder''** of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the **''Register''**) as Holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favor of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the Depositary in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.

The GDRs may qualify as depositary receipts of shares issued with the cooperation of the Company (*certificaten van aandelen uitgegeven met medewerking van de vennootschap*) under Dutch law (**''Depositary Receipts of Shares under Dutch law''**). If the GDRs do qualify as Depositary Receipts of Shares under Dutch Law, the holders of such Depositary Receipts of Shares are entitled to rights as provided for under Dutch law. In such case, in the event of a conflict between the terms and conditions of the GDRs as provided for in the Deposit Agreement and the rights of holders of Depositary Receipts of Shares under Dutch law, the terms and conditions of the GDRs under the Deposit Agreement shall, to the extent permitted by Dutch law, prevail.

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) A duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or the Netherlands of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) The payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) The surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) A certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) All other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

Provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) Will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) Will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in the Netherlands of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 Subject to Condition 1.5, the Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and, if applicable, a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement *(which is described in the following paragraph)* by or on behalf of any investor who is to become the beneficial owner of the GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under ''Transfer Restriction.''

1.5 Unless the Company otherwise instructs the Depositary, the Depositary shall: (a) not accept any Shares for deposit into the Facility during the period of 180 days following the original issue date of the GDRs; and (b) only accept Shares for deposit into the Facility during the period beginning on the 181st day, and ending on the 360th day, after the original issue date of the GDRs, if the certification provided in substantially the form set out in Schedule 3, Part A contains the additional confirmations stated therein.

The Depositary shall, subject to the terms of the Deposit Agreement shall:

(a) Not accept any Shares for deposit into the GDR facility during the period of 180 days following the original issue date of the GDRs (the **''Deposit Lock-Up Period''**); and

(b) Only accept Shares for deposit into the GDR facility during the period beginning on the 181st day and ending on the 360th day after the original issue date of the GDRs, if the certification provided in substantially the form set out in Schedule 3, Part A contains the additional confirmations stated therein.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies that if such depositor (i) held any direct or indirect interest in any Shares at any time before the original issue date of the GDRs and (ii) has not entered into an underwriting agreement relating to the offering of the GDRs containing a lock-up clause, then neither such depositor nor any of its subsidiaries or affiliates, nor any other person acting on its behalf or for its account, has during the Deposit Lock-Up Period entered into any transaction having the same or similar effect as a Share sale.

1.6 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares that have different dividend rights from, or otherwise do not rank *pari passu* with, the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the relevant Master GDR by the number of such further GDRs).

1.7 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a ''Pre-Release'' as defined in Condition 1.8

1.8 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, but subject always to Condition 1.5, the Depositary may execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares (a **''Pre-Release''**). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the **''Pre-Releasee''**) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30% of the total number of GDRs then outstanding;

provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of GDRs or Shares is to be made pursuant to this paragraph shall, if applicable, be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register or the register of shareholders of the Company is closed or may, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited

Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

(a) In the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) The Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv)

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) If and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) If and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) If and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the **''Primary GDR Rights Offering''**), if authorized by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs (**''Additional GDR Rights''**) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the **''Instruction Date''**) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights (**''Additional GDR Rights Requests''**) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the **''Maximum Additional Subscription''**) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (**''Unsubscribed Rights''**), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in EUR or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated pro rata on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Dutch counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7 and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in willful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavors (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgment of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or license, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgment any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or license of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by check drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganization

Upon any change in the nominal or nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganization, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Dutch and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorization, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the Netherlands in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorization, consent, registration or permit to file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorization, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorization, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 GDR Holders are entitled to direct the Depositary in relation to the exercise of voting rights with respect to the Deposited Shares in accordance with this Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor, as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such deadline as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 that it is not permitted by Dutch law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Dutch law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favor of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favor of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favor of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavor to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Dutch law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5, then the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above, the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received, upon its request, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Dutch law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the **"Charges"**) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of the Netherlands or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own willful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavor to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own willful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorization or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorized by a Director of the Company or such other certificate from persons specified in Condition 14.10 above, which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without willful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the

Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, willful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the willful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Dutch law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) For the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: USD 5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) For issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) For issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of USD 1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) For receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of USD 0.02 or less per GDR for each such dividend or distribution;

(v) In respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: USD 5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) A fee of USD 0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year; and shall be payable as provided in paragraph (vii); and

(vii) Any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the **''Agents''**) for the purpose, *inter alia,* of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its best endeavors to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the U.K. Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the U.K. Listing Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List of the U.K. Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavors with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognized stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in the Netherlands, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in the Netherlands, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change in accordance with Condition 23 immediately upon such change taking effect. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as specified in the Deposit Agreement; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders and to the U.K. Listing Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavors to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the U.K. Listing Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after dispatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answer back from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List of the U.K. Listing Authority and admitted to trading on the London Stock Exchange and the rules of the U.K. Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the U.K. (which is expected to be the Financial Times).

A notice convening a General Meeting of holders of Shares shall be given by publication in a daily newspaper with a national circulation in the Netherlands.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:

(i) In respect of the financial year ending on December 31, 2004; and

(ii) In respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with generally accepted accounting principles in the Netherlands and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarized form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Monies held by the Depositary

The Depositary shall be entitled to deal with monies paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such monies from other monies belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Dutch law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a **"Dispute"**) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (**"Proceedings"**) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager), 48th Floor, One Canada Square, London E14 5AL, as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

Summary of the Provisions of the GDRs in Master Form

The GDRs will initially be evidenced by a single Master GDR in registered form. The Master GDR will be deposited with The Bank of New York, London Branch as common depositary for Euroclear and Clearstream Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited. The Master GDR contains provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set forth in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Depositary will exchange the Master GDR, in whole but not in part, for certificates in definitive registered form evidencing GDRs only if:

➤ Euroclear or Clearstream Luxembourg advises the Company in writing that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

➤ Euroclear or Clearstream Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

➤ The Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange will take place within 60 days and will be at the expense, including printing costs, of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream Luxembourg.

Upon:

➤ Any exchange of the Master GDR for certificates in definitive registered form;

➤ Any distribution of GDRs pursuant to Conditions 5, 7 or 10; or

➤ Any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1;

the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased, as the case may be, for all purposes by the amount so exchanged and entered on the register. If the number of GDRs represented by the Master GDR is reduced to zero, the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

PAYMENTS, DISTRIBUTIONS AND VOTING RIGHTS

Payments of cash dividends and other amounts, including cash distributions, will be made by the Depositary through Euroclear and Clearstream Luxembourg on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of GDRs will have voting rights as set forth in ''Terms and Conditions of the GDRs.''

SURRENDER OF GDRS

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream Luxembourg, on behalf of a person entitled to an interest therein, of evidence of such person's entitlement as the Depositary may reasonably require, which is expected to be a certificate or other document issued by Euroclear or Clearstream Luxembourg. The delivery or production of any such evidence shall be sufficient evidence in favor of the Depositary, any Agent and the Custodian of the title of such person to receive, or to issue instructions for the receipt of, all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

NOTICES

For as long as the Master GDR is registered in the name of a common nominee for Euroclear and Clearstream Luxembourg, the Depositary may give notices to Holders by delivering such notice to Euroclear and Clearstream Luxembourg for communication to persons entitled thereto in lieu of delivery of notices in accordance with Condition 23. So long as GDRs are listed on the Official List and admitted for trading on the London Stock Exchange and the U.K. Listing Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the United Kingdom, which is expected to be the *Financial Times.*

The Master GDR will be governed by and construed in accordance with English law.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The registered office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22nd Floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of the most recent financial statements and annual report of The Bank of New York Company, Inc. are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

The following discussion describes the material U.K. and Netherlands income and withholding tax consequences to a holder of Shares or GDRs. This discussion is not intended as tax advice to any particular investor. It is also not a complete analysis or listing of all potential U.K. and Netherlands income and withholding tax consequences to you of ownership of common shares or GDRs. No opinion of counsel will be issued with respect to the discussion under the heading ''Taxation;'' therefore, such discussion is not based on an opinion of counsel. The Company urges prospective investors to consult their own tax advisers regarding the specific U.K. and Netherlands tax consequences of acquisition, ownership and disposition of the Shares or GDRs in their particular circumstances.

UNITED KINGDOM TAX CONSIDERATIONS

The following is a summary of certain U.K. tax considerations relevant to the purchase, ownership and disposal of GDRs and is based on the laws of the U.K. and HM Revenue and Customs practices in effect as of the date of this Prospectus and is subject to any changes that may take effect after such date, possibly with retroactive effect. This summary only covers the principal U.K. tax consequences for the absolute beneficial owners of GDRs who are, except where otherwise stated, resident and ordinarily resident in the U.K. for tax purposes and who hold GDRs for investment as capital assets and does not address the tax consequences which may be relevant to certain other categories of holders, such as dealers.

This summary assumes that:

- The ultimate beneficial owners of GDRs will be treated for U.K. tax purposes as absolute beneficial owners of the Shares represented by the GDRs,
- The holder is not a company that either directly or indirectly controls 10% or more of the voting power of the Company
- There will be no register in the U.K. in respect of Shares or GDRs ; and
- Neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the U.K.
- This summary does not purport to be a comprehensive description of all tax considerations relevant to any particular GDR holder. Prospective GDR holders should consult their tax advisers regarding the U.K. tax consequences of purchase, ownership and disposal of the GDRs. No representations are made to any particular GDR holder with respect to the U.K. tax consequences.

Taxation of dividends

Income tax

Individual holders who are resident in the U.K. will generally be liable to income tax on the full amount of dividends arising from a non U.K. resident company. The amount of the dividend arising includes any foreign tax withheld on the dividend. Income tax is imposed at the **''Dividend Ordinary Rate,''**currently 10%, except in the case of individual holders liable to income tax at the higher rate, in whose hands dividends will be taxed at the **''Dividend Upper Rate,''** currently 32.5%.

Individual holders who are liable to income tax on dividends will be entitled to offset foreign withholding tax against their income tax liability to the extent of the maximum foreign taxation permitted under the Netherlands-United Kingdom double taxation convention (the **''Convention''**), currently 15% See ' — Netherlands Tax Considerations.'' Holders who do not seek a reduction in the Netherlands taxation will not be entitled to offset the maximum foreign tax beyond the amount permitted by the Convention.

The credit for Netherlands taxation will satisfy a liability for income tax at the Dividend Ordinary Rate in full. Holders liable to tax at the Dividend Upper Rate will have to account for income tax on the difference between the foreign tax (15%) and the Dividend Upper Rate.

Corporation tax
Companies resident in the U.K. will be liable to corporation tax on the full amount of dividends arising from a non U.K. resident company. Holders who are liable to income tax on dividends will be entitled to offset the foreign withholding tax against their income tax liability, to the extent of the foreign taxation permitted under the Convention. See '' — Netherlands Tax Considerations.'' Holders who do not seek a reduction in the foreign taxation will not be entitled to offset the foreign tax beyond the amount permitted by the Convention.

The tax treatment of dividends paid by companies resident in one member state of the European Community to a company in resident in the U.K. is currently being challenged as contrary to Community law. It is claimed that such dividends should be exempt from tax in the hands of a U.K. resident corporate recipient in the same way as dividends received from a U.K. resident company.

Taxation of capital gains

Individual holders
Individual holders resident or ordinarily resident in the U.K. will be liable to chargeable gains tax on any gain arising on the disposal or deemed disposal of GDRs. Individuals are exempt on £8,500 of gain in the tax year 2005 to 2006. Where the GDRs do not constitute business assets, the taxable percentage of the gain is reduced after an initial two-year holding period by 5% for each subsequent whole year in the qualifying holding period up to a maximum of ten years (including the initial two-year holding period). An individual who disposes of shares while temporarily non resident and returns to the U.K. before five whole tax years of non residence have elapsed will be liable to tax on any gain arising in the year of return to the U.K.

Corporate holders
Corporate holders resident in the U.K. will be liable to corporation tax on any gain arising on the disposal or deemed disposal of GDRs. The base cost of GDRs may be adjusted by indexation allowance, however, this may not be used to create an allowable loss.

Certain persons who are not resident or ordinarily resident in the U.K. may be liable to tax on the disposal of GDRs if they carry on a trade, profession or vocation in the U.K., through a branch or agency (or, a permanent establishment in the case of a company), where the GDRs are used for the purpose of such trade profession or vocation or are held for the purposes of, or have been acquired for the use by or for the purposes of the branch or agency (or permanent establishment).

Stamp duty and stamp duty reserve tax
No stamp duty will be payable on the issue or transfer of the GDRs, provided, in the case of a transfer, that any instrument of transfer is not executed in the U.K. and does not relate to any property situated, or to any matter or thing done or to be done, in the U.K.

No stamp duty reserve tax is payable on the issue or transfer of the GDRs.

NETHERLANDS TAX CONSIDERATIONS

The following is a summary of certain Netherlands tax considerations relevant to the purchase, ownership and disposition of the GDRs. Except as otherwise indicated, the summary is based on the laws of the Netherlands in effect as of the date of this Prospectus and is subject to any changes that may take effect after such date with or without retroactive effect. The summary does not address taxes levied by regions, municipalities or other non-federal authorities of the Netherlands.

This summary assumes that the ultimate beneficial owners of GDRs will be treated for Netherlands tax purposes as absolute beneficial owners of the Shares represented by the GDRs, and references to GDRs should be read accordingly.

This summary does not purport to be a comprehensive description of all tax considerations relevant to any particular GDR holder. Prospective GDR holders should consult their tax advisers regarding the Netherlands tax consequences of investing in the GDRs. No representations with respect to the Netherlands tax consequences to any particular GDR holder are made hereby.

Corporate and individual income tax

Residents of the Netherlands

Tax liability of individual holders

An individual holder who is resident or deemed to be resident in the Netherlands for Netherlands tax purposes, including a non-resident individual who has elected to be taxed as resident in the Netherlands, is subject to tax on dividends distributed by the Company and on capital gains realized on disposal of the GDRs if, among other things.

➤ The holder of GDRs has an enterprise or an interest in an enterprise to which the GDRs are attributable; or

➤ The activities in the Netherlands with respect to the GDRs exceed ''normal active asset management'' (*normaal actief vermogensbeheer*).

The rate of taxation is progressive at a maximum of 52%.

An individual holder who is resident or deemed to be resident in the Netherlands for Netherlands tax purposes, including a non-resident individual who has elected to be taxed as resident in the Netherlands, and who is not taxable at progressive rates pursuant to the Dutch regulations set forth above is subject to tax on dividends distributed by the Company and on capital gains realized on disposal of the GDRs if:

➤ The holder of the GDRs, or any of his partners within the meaning of the Netherlands Income Tax Act (*Wet inkomstenbelasting 2001*); or

➤ Certain other of such persons' relatives (including foster children)

has a substantial interest, as defined in the Netherlands Income Tax Act, in the Company. A substantial interest is generally present if a holder holds, alone or collectively with certain persons related to, or deemed related to, the individual holder, the ownership, whether directly or indirectly, of certain rights, including the rights to acquire shares, whether or not already issued, over:

➤ Shares or the right to the profits on the shares representing 5% or more of the total issued and outstanding capital of any class of shares of the Company;

➤ Rights to acquire shares, whether or not already issued, that represent at any time (and from time to time) 5% or more of the Company's total issued and outstanding capital (of the issued and outstanding capital of any class of shares); or

➤ Profit participating certificates (or the right to the profits of profit participating certificates) entitling the holder to 5% or more of the Company's annual profit or 5% or more of the liquidation proceeds of the Company.

If an individual does not have a substantial interest in the Company, a deemed substantial interest will be present if a substantial interest, or part of a substantial interest has been disposed of, or is deemed to be disposed of, on an non-recognition basis.

In other cases, an individual holder will not be liable for tax on actual payments of dividends on GDRs and the actual gains realized upon the disposal of GDRs. Instead, the holder will be taxed at a flat rate of 30% on deemed income from ''savings and investments'' (*sparen en beleggen*). This deemed income amounts to 4% of the average of the individual's ''yield basis'' (*rendementsgrondslag*) at the beginning and the end of the calendar year. The value of the GDRs is included in the calculation of the ''yield basis.'' A tax-free allowance for the first EUR 19,522 (EUR 39,044 for partners (statutorily defined term)) of the ''yield basis'' may be available.

Tax liability of corporate holders

A holder of GDRs that is a corporate entity, or otherwise classified as a Netherlands corporate income taxpayer, and is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes will generally be subject to corporate income tax on any benefits derived, or deemed to be derived, from GDRs, including any capital gains realized on the disposal thereof.

However, such holder may not be so subject to corporate income tax if it is eligible for the participation exemption with respect to those GDRs. The participation exemption is generally available if the holder owns at least 5% of the Company's nominal paid-up share capital. A corporate income tax payer that is deemed to be a resident of the Netherlands is not eligible for the participation exemption. The current rate of corporate income tax is 31.5% (27% for the first EUR 22,689 of taxable income).

A Netherlands qualifying pension fund is not subject to corporate income tax with respect to any benefits derived from GDR's, unless these benefits can be considered to have been derived from certain activities designated by a decree that still has to be published. A qualifying Netherlands resident investment fund *(fiscale beleggingsinstelling*) is subject to corporate income tax at a special rate of 0%.

Non-Residents of the Netherlands

A holder of GDRs will not be subject to any Netherlands taxes, other than the withholding tax described below, on dividends distributed by the Company or on capital gains realized on disposal of the GDRs if:

➤ Such holder is neither resident nor deemed to be resident in the Netherlands for tax purposes and has not elected (for Individual Holders only) to be taxed as resident in the Netherlands, in which case the non-resident is treated as a resident for Dutch tax purposes (see ''–Corporate and individual income tax–Residents of the Netherlands–Tax liability of individual holders'' above);

➤ Such holder does not have or is not deemed to have an enterprise, or an interest in an enterprise effectively managed in the Netherlands and/or, carried on in whole or in part through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or interest the GDRs are attributable; or

➤ If such holder is an individual, his activities in the Netherlands with respect to Shares or GDRs do not exceed ''normal active asset management'' (*normaal actief vermogensbeheer*);

➤ If such holder is an individual, neither such holder nor any of his partners, in the meaning of the Netherlands Income Tax Act, or certain other of such person's relatives, including foster children, has a substantial interest, as defined in the Netherlands Income Tax Act, in the Company. For the general presence of a substantial interest, see ''–Corporate and individual income tax–Residents of the Netherlands.''

➤ If such holder is a legal person, such holder does not have, directly or indirectly, a substantial or a deemed substantial interest, as defined in the Netherlands Income Tax Act 2001 in the Company, or, if such holder does have such an interest, it forms part of the assets of an enterprise.

Withholding tax

Dividends distributed by the Company are generally subject to Netherlands withholding tax at a rate of 25%. Dividends distributed by the Company include, but are not limited to:

➤ Distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital not recognized for Netherlands dividend withholding tax purposes;

➤ Liquidation proceeds, proceeds from the redemption of GDRs or, as a general rule, consideration for the repurchase of GDRs by the Company or one of its subsidiaries in excess of the average paid-in capital recognized on these shares for Netherlands dividend withholding tax purposes;

➤ The nominal value of GDRs issued to a holder of GDRs or an increase of the nominal value of Shares, as the case may be, to the extent that it does not appear that a contribution recognized for Netherlands dividend withholding tax purposes has been or will be made; and

➤ If there are net profits (*zuivere winst*), partial repayment of paid-in capital recognized for Netherlands dividend withholding tax purposes, unless the:

– General meeting of shareholders of the Company has resolved in advance to make such repayment; and

– Nominal value of the GDRs concerned has been reduced in an equal amount by way of an amendment to the Articles.

If a holder of GDRs is resident in a country other than the Netherlands, and if a double taxation treaty or other arrangement is in effect between such country and the Netherlands, such holder may, pursuant to the terms of such treaty or arrangement, be eligible for a full or partial exemption from, or a refund of, Netherlands dividend withholding tax.

Individuals and corporate entities who are resident or deemed to be resident in the Netherlands for Dutch tax purposes can generally credit the withholding tax against their income tax or corporate income tax liability. Dutch resident entities will even be entitled to a full exemption from Dutch dividend withholding tax if the Dutch participation exemption applies to their GDR's in the Company.

According to anti-dividend stripping rules, no exemption from, or credit, reduction or refund of, Netherlands dividend withholding tax will be granted if the recipient of the dividend is not considered the beneficial owner (*uiteindelijk gerechtigde*) of such dividends for Netherlands dividend withholding tax purposes.

These rules generally target situations, commonly referred to as ''dividend stripping,'' in which a shareholder retains its economic interest in GDRs, but reduces the withholding tax cost on dividends by a transaction with another party. It is not required for these rules to apply that the recipient of the dividends is aware that a dividend stripping transaction took place. However, the Dutch state secretary of Finance published its view that the rules should not be applicable to such an unsuspecting recipient who purchased the GDRs on the stock exchange.

Furthermore, the state secretary of Finance takes the position that the definition of beneficial ownership introduced by this legislation will also be applied in the context of a double taxation convention.

Gift, inheritance and estate tax

Residents of the Netherlands

Gift tax may be due in the Netherlands with respect to an acquisition of the GDRs by way of a gift by a holder of GDRs who is resident or deemed to be resident in the Netherlands at the time of the gift. Inheritance tax may be due in the Netherlands with respect to an acquisition of GDRs from a person who is resident or deemed to be resident in the Netherlands at the time of his death, or by way of a gift by such a holder within 180 days before his death.

Non-Residents of the Netherlands

No gift, estate or inheritance tax will arise in the Netherlands with respect to an acquisition of the GDRs by way of a gift by, or on the death of, a holder who is neither resident nor deemed to be resident in the Netherlands, unless:

- ➤ Such holder at the time of the gift has or at the time of his death had an enterprise in the Netherlands, or an interest in such an enterprise, carried on in whole or in part through a permanent establishment or a permanent representative in the Netherlands and to which enterprise the GDRs are/or were attributable; or

- ➤ In the case of a gift of the GDRs by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the gift date while being resident or deemed to be resident in the Netherlands.

For purposes of Netherlands gift and inheritance tax, an individual who holds Netherlands nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his death.

For purposes of Netherlands gift tax, an individual not holding Netherlands nationality will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

Value-added tax

No Netherlands VAT, sales tax or similar tax will be due in respect of any payment in consideration for the issue of the GDRs or with respect to any payment by the Company on the GDRs.

Other taxes

Except for capital tax that will be payable by the Company, no Netherlands registration tax, transfer tax, stamp duty or any other similar tax or duty will be payable in the Netherlands in connection with the holding of the GDRs.

Subscription and Sale

Under the terms of, and subject to the conditions contained in, an underwriting agreement, dated as of November 11, 2005 (the **''Underwriting Agreement''**), among the Company, each Selling Shareholder and each Manager, the Managers have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Shares in the form of GDRs indicated below. The Company and the Selling Shareholders have each agreed to sell to the Managers, at the Offer Price, the number of Shares in the form of GDRs indicated below:

Manager	Number of Shares	Number of Shares in respect of the Over-Allotment Option
UBS Limited Business Address: 1 Finsbury Avenue, London EC2M 2PP, United Kingdom	8,718,500	1,375,425
Alfa Capital Holdings (Cyprus) Limited, acting through its London branch, Alfa Capital Markets Business Address: 21st Floor, City Tower, 40 Basinghall Street, London EC2V 5DE, United Kingdom	8,718,500	1,375,425
Nikitas Brokerage Limited Business Address: 2-4 Arch. Makarios III Avenue, Capital Center 9th Floor, Nicosia 1505, Cyprus	602,000	—
ING Bank N.V., London Branch Business Address: 60 London Wall, London EC2M 5TQ, United Kingdom	300,000	—

The Underwriting Agreement contains the following further provisions, among others:

Amtel Luxembourg and Mr. Gurin have granted to the Managers the Over-Allotment Option to acquire up to 2,378,495 and 372,355 additional Shares in the form of GDRs, respectively, at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-Allotment Option is exercisable during the Stabilization Period.

The Managers will deduct from the proceeds of the Offering, or the Company and the Selling Shareholders will otherwise pay:

➤ Costs and expenses incurred by the Lead Managers in connection with the Offering;

➤ Underwriting commissions payable by the Company and the Selling Shareholders of USD 6,886,898 and USD 2,190,907, respectively, in respect of the Offering (assuming the Over-Allotment Option is not exercised); and

➤ Underwriting commissions payable by Amtel Luxembourg and Mr. Gurin in respect of any additional GDRs offered as a result of the exercise of the Over-Allotment Option, up to a total of USD 1,361,671 if the Over-Allotment Option is exercised in full.

In addition, the Company intends to pay Nikitas Brokerage Limited and ING Bank N.V., London Branch financial advisory fees of approximately USD 807,000 and USD 701,500, respectively, in relation to the Offering.

The obligations of the parties to the Underwriting Agreement are subject to certain conditions including the accuracy of the representations and warranties under the Underwriting Agreement and the application for admission having been approved on or prior to the Closing Date. The Managers may terminate the Underwriting Agreement prior to admission in certain specified circumstances including the occurrence of certain material changes in the business, financial condition, prospects or results of operations of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, admission, then the Offering will lapse.

The Company and the Selling Shareholders have agreed to indemnify the Managers against certain liabilities in connection with the Offering.

Each of the Company, Amtel Luxembourg, Sudhir Gupta and Alexey Gurin may not, and will procure that its subsidiaries, other affiliates and any person acting on its or their behalf (other than the Managers) not, for a period commencing on the date of the Underwriting Agreement and ending 180 days after the Closing Date (the **''Lock-Up Period''**):

➤ Issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs; or

➤ Enter into transactions with a similar effect to any of the foregoing (each, a **''Prohibited Transaction''**)

without the prior written consent of UBS Limited and Alfa Capital Holdings (together, the **''Lead Managers''**).

In general, no other Selling Shareholder, nor any of its subsidiaries or other affiliates over which it exercises management or voting control, nor any person acting on its or their behalf, may enter into a Prohibited Transaction during the Lock-Up Period without the Lead Managers' prior written consent. However, such persons may enter into Prohibited Transactions if, immediately before and upon taking account such transaction, the Selling Shareholder (or the person on whose account the Selling Shareholder is selling in the Offering, as the case may be) has an economic interest in an amount of Shares at least equal to the Share Holding. **''Share Holding''** means the amount of Shares in which the Selling Shareholder (or the person on whose account the Selling Shareholder is selling in the Offering, as the case may be) had a direct or indirect interest immediately before the date of pricing:

➤ *Plus* the amount of Shares in which such person became interested, directly or indirectly, after pricing (other than through the purchase of any GDRs);

➤ *Minus* the amount of any Shares in the form of GDRs sold for its account in the Offering.

Under the Deposit Agreement, the Depositary may not accept any Shares for deposit into the GDR facility during the 180-day period following the Closing Date (the **''Deposit Lock-Up Period''**). Furthermore, for an additional 180-day period following the end of the Deposit Lock-Up Period, the Depositary may accept Shares for deposit into the GDR facility only if the depositor delivers a certificate to the Depositary, copied to the Lead Managers, to the effect that if such depositor:

➤ Held any direct or indirect interest in any Shares before the Closing Date; and

➤ Has not entered into any lock-up agreement with the Managers

then none of such depositor, any of its subsidiaries or affiliates or any person acting on its or their behalf has, during the Deposit Lock-Up Period, entered into a Prohibited Transaction (other than those that would be permitted if it were a Selling Shareholder) without the Lead Managers' prior written consent.

The Managers and their affiliates have engaged in and performed, and may from time to time engage in and perform, other investment banking, commercial dealing and advisory services for which they may receive customary fees and commissions. In addition, Alfa Capital Holdings, a Manager, is an owner of 4,281,430 Shares, none of which it is selling in the Offering or as part of the Over-Allotment Option.

In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company has applied to the U.K. Listing Authority, in its capacity as competent authority under the FSMA, to admit up to 67,501,495 GDRs (of which 18,339,000 will be issued or sold on the Closing Date and of which 2,750,850 will be sold pursuant to the Over-Allotment Option, if exercised) to the Official List and to the London Stock Exchange to admit such GDRs for trading under the symbol AMV. Trading in the GDRs on the London Stock Exchange is expected to commence on November 14, 2005 on a when- and if-issued basis. Closing and settlement are expected to take place on November 17, 2005, and admission to the Official List and to trading on the London Stock Exchange is expected to take place on November 18, 2005.

The Company is not aware of whether any of its major shareholders, members of its administrative, management or supervisory boards intend to subscribe in the Offering, or whether any person intends to subscribe for more than 5% of the Offering.

Amtel Luxembourg has agreed to lend to the Managers Shares in the form of GDRs to cover over-allotments.

Selling and Transfer Restrictions

SELLING RESTRICTIONS

Except to the extent indicated under ''United Kingdom'' below, no action has been taken or will be taken in any jurisdiction by the Managers or the Company that would permit a public offering of the Shares or GDRs, or possession or distribution of this document or any amendment or supplement thereto or any other offering or publicity material relating to the Shares or GDRs, in any country or jurisdiction where action for that purpose is required.

United States
The Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States. GDRs are being offered to investors outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the GDRs within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the Securities Act.

United Kingdom
Each Manager has represented and agreed that it has:

➤ Only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

➤ Complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

Russia
Each Manager has represented and agreed that it has not offered or sold and will not offer or sell any Shares or GDRs to or for the benefit of any persons resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

The Netherlands
Each Manager has represented and agreed that the GDRs (including rights representing an interest in a Master GDR) may not be offered, have not been offered and will not be offered, directly or indirectly, in the Netherlands, as part of their initial distribution or as part of any re-offering, other than to persons established, domiciled or resident in the Netherlands who are professional parties within the meaning of section 1a, subsection 3 of the Exemption Regulation to the Dutch Act on the Supervision of the Securities Trade 1995, as amended from time to time, which includes banks, certain securities intermediaries (including dealers and brokers), insurance companies, pension funds and certain other institutional investors and commercial enterprises.

TRANSFER RESTRICTIONS

Each purchaser of GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined Regulation S are used herein as defined therein):

➤ The purchaser:

– Is, and the person, if any, for whose account it is acquiring the GDRs, is outside the United States;

– Is not an affiliate of the Company or a person acting on behalf of such an affiliate; and

– Is not a securities dealer or, if it is a securities dealer, it did not acquire the GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of GDRs.

➤ The purchaser is aware that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.

➤ The purchaser will not offer, resell, pledge or otherwise transfer such GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

➤ If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such GDRs or the Shares represented thereby, such GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

THIS GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF AMTEL-VREDESTEIN N.V. REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **''SECURITIES ACT''**), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

Settlement and Transfer

CLEARING AND SETTLEMENT OF GDRS

Custodial and depositary links have been established between Euroclear and Clearstream Luxembourg to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

EUROCLEAR AND CLEARSTREAM LUXEMBOURG

Euroclear and Clearstream Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream Luxembourg is also available to other persons, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream Luxembourg participants in accordance with the relevant system's rules and procedures.

REGISTRATION AND FORM

Book-entry interests in the GDRs held through Euroclear and Clearstream Luxembourg will be represented by the Master GDR registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream Luxembourg. As necessary, the common depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear and Clearstream Luxembourg, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream Luxembourg.

The aggregate holdings of book-entry interests in the GDRs in Euroclear and Clearstream Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream Luxembourg. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream Luxembourg are credited to Euroclear or Clearstream Luxembourg as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream Luxembourg and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See ''Terms and Conditions of the GDRs.''

GLOBAL CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

The GDRs will be in global form evidenced by the Master GDR. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream Luxembourg accounts will follow the settlement procedures applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see ''Selling and Transfer Restrictions–Transfer restrictions.''

Trading between Euroclear and Clearstream Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

GENERAL

Although the foregoing sets out the procedures of Euroclear and Clearstream Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream Luxembourg, neither Euroclear nor Clearstream Luxembourg are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

Summary of Certain Differences between IFRS and Dutch GAAP

The Group Financial Statements have been prepared in accordance with IFRS, which comprise standards and interpretations approved by the IASB, and IAS and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. The Vredestein Annual Financial Statements have been prepared in accordance with Dutch GAAP. There are some significant differences between IFRS and Dutch GAAP.

The following table summarizes a number of differences between IFRS and Dutch GAAP with respect to the determination of the Group's combined shareholders' equity as at December 31, 2004 and 2003 and the results of its operations for each of the two years ended December 31, 2004 and 2003. This summary does not address disclosure, classification or presentation differences other than the presentation of extraordinary items and components of shareholders' equity.

The Group has not prepared a complete reconciliation of its consolidated financial information and related footnote disclosure between IFRS and Dutch GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and Dutch GAAP is complete or accurate. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and Dutch GAAP, and how these differences might affect the financial information in this Prospectus.

IFRS	Dutch GAAP
PROPERTY, PLANT AND EQUIPMENT	
Where an item of property, plant or equipment has a separate component, such component is treated as a separate item and is depreciated over its own useful life. Such a component approach also is adopted in respect of the cost of major inspections or overhauls.	Under Dutch GAAP, component accounting is not obligatory. With respect to the cost of major inspections or overhauls, Dutch GAAP offers three options: the component approach, as under IFRS; building up a provision; or expensing the costs in the income statement as incurred.
CONSOLIDATION	
Consolidation is based on the power to control another entity. Under IFRS effective prior to January 1, 2005, a subsidiary was excluded from consolidation when control was intended to be temporary because the subsidiary was acquired and held exclusively with a view to its subsequent disposal in the near future; or it operated under severe long-term restrictions which significantly impaired its ability to transfer funds to the parent. From January 1, 2005 a subsidiary that is held exclusively with a view to subsequent disposal is not consolidated; rather, it is presented as a disposal group classified as held for sale if certain criteria are met.	Dutch GAAP does not prohibit consolidation if there are severe long-term restrictions. Dutch GAAP provides an option not to consolidate a subsidiary if control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to disposal. Prior to January 1, 2005 there was no requirement similar to IFRS that disposal must be in the ''near future.'' Dutch GAAP allows non-consolidation if the required information can only be obtained or estimated at disproportionate expense or with great delay, or if the subsidiary's activities are dissimilar from those of the other entities in the group.

IFRS	Dutch GAAP
GOODWILL	
Goodwill is recognized as an intangible asset.	Goodwill is recognized as an intangible asset. However, offsetting goodwill against shareholders' equity is allowed.
Goodwill is not amortized and is tested for impairment on an annual basis.	Goodwill is capitalized and amortized over the estimated useful lives of the underlying assets.
Excess of the consideration paid over the fair value of the net identifiable assets and contingent liabilities of the acquiree (negative goodwill) is recognized immediately in the income statement.	Dutch GAAP allows a choice of netting negative goodwill against goodwill, presenting negative goodwill as a separate non-distributable item on the credit side of the balance sheet, or in the case of a ''lucky buy,'' crediting negative goodwill directly to a revaluation reserve. If negative goodwill is netted against positive goodwill or is shown on the credit side of the balance sheet, the amount is amortized to the income statement.
INVENTORIES	
Inventories are carried at the lower of cost or net realizable value, being sale proceeds less costs to complete and selling costs. A reversal is required for a subsequent increase in value of inventory previously written down.	Dutch GAAP allows current value as an inventory valuation basis, in addition to the lower of cost and net realizable value. Dutch GAAP permits an extraordinary reduction in the value of inventories, that occurs after the balance sheet date, to be recognized at the balance sheet date when such reduction is reasonably foreseeable in the short-term.
DEFERRED INCOME TAX	
The deferred tax arising from the revaluation of a non-monetary asset must be recognized.	There is no requirement to recognize deferred tax arising from the revaluation of a non-monetary asset.
Deferred tax may not be discounted.	Taxable temporary differences from an asset revaluation are not taken into account in assessing the recoverability of a deferred tax asset.
Deferred tax assets are classified as non-current in the balance sheet.	Deferred tax may be discounted.
	Deferred tax may be split into current and non-current components on the balance sheet.

IFRS

RETIREMENT BENEFIT OBLIGATIONS — DEFINED BENEFIT PLANS

The defined benefit cost includes the entire periodic change in the plan liabilities less assets, aside from certain changes not recognized fully. The total consists of current service cost, interest cost, expected return on plan assets, certain actuarial gains and losses, and certain past service costs.

When an entity is reimbursed for expenditure required to settle a defined obligation, the reimbursement is accounted for as a plan asset when recovery is virtually certain.

Actuarial gains and losses are required to be recognized when the cumulative amount thereof exceeds a ''corridor'' (10 per cent of the greater of the present value of the obligation and the fair value of the plan assets at the end of the previous reporting period). The excess amount is amortized on a straight-line basis over the expected remaining working lives of the employees in the plan. However, an entity is permitted to account for actuarial gains and losses in any systematic method that results in faster recognition, for example ignoring the corridor and spreading the full amount or even immediate recognition of the full amount. When an entity adopts a policy of recognizing actuarial gains and losses in the period in which they occur, it may recognize them in equity. The policy chosen must be applied consistently.

Past service cost is the increase in the present value of the obligation, in respect of prior periods' service, due to changes in benefit entitlement. If such entitlements are not conditional on future service (i.e. are vested) they are recognized in full immediately. If they are not vested then they are amortized on a straight-line basis over the period until they vest. The effect on the balance sheet of all of the above is that a liability is recorded as the present value of the obligation less the fair value of the plan assets less unrecognized past service cost and actuarial losses (gains). If this turns out to be an asset then its amount is further limited to the present value of available contribution reductions or refunds plus unrecognized actuarial gains and losses and unrecognized past service costs.

IAS 19 has no special requirements when there is a deficit based on the current level of funding.

Dutch GAAP

Pension charges can be measured for recognition in the balance sheet and income statement in two different ways:

- calculated on a special basis (the static method);
- calculated on a general basis (the dynamic method).

With either method, the amount recognized is a discounted value. In the case of pension liabilities that are insured by life insurance companies, a company pension fund or an industry pension fund, the Insurance Chamber prescribes a discount rate. By applying a relatively low percentage, inflation in future years is intended to be taken into account implicitly, including the consequence of pay rises. If the static method is applied, the costs of the pension commitments should be allocated to the years in which the employee services were performed and on which the pension rights are based. The method of financing is irrelevant to the allocation process; it is therefore possible that the treatment of charges in the income statement will not run parallel with the payment of the regular contributions and single-premiums calculated according to the funding method.

The purpose of the dynamic method is to provide an equal spread of pension costs for a group of employees over the years. Expected changes in staff turnover, wage levels, career development, interest rates, etc., should be taken into consideration. The dynamic method may result in timing differences between actual payments of contributions and contributions charged to the income statement.

From January 1, 2005 the main features of accounting policies in the Netherlands are similar to IAS 19. The treatment of some prépension plans and the treatment of multi-employer plans differ from IAS 19.

Provisions should be made for any deficit in an entity pension fund for which the enterprise is legally liable.

IFRS	Dutch GAAP

IFRS

PROVISIONS

A provision is recognized on the basis of a legal or constructive obligation and is recorded at its best estimate. All provisions must be discounted if the effect thereof is material.

A constructive obligation to restructure is recognized when an entity has:

A detailed formal plan for the restructuring identifying at least the business or part of a business concerned, the principal locations affected, the location, function, and approximate number of employees who will be compensated for terminating their services, the expenditures that will be undertaken; and when the plan will be implemented; and

Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Voluntary employee severance is provided for once the offer is made.

A provision for decommissioning is recognized in full when the recognition criteria are met. Repairs and maintenance provisions are prohibited.

Dutch GAAP

Under Dutch GAAP, when a best estimate for a provision is not apparent, the minimum amount of the range of possible losses is provided for.

Environmental provisions are discounted only if the liability and the amount and timing of cash payments are fixed or reliably determinable.

Restructuring costs, other than those relating to employee termination, are provided on a decision rather than a communication basis. Voluntary employee severance is provided for only when the employee accepts the terms. For asset retirement obligations, a liability is recognized only when an enterprise has incurred a legal obligation to perform asset retirement activities. Currently there is no prohibition on repairs and maintenance provisions.

MATERIAL LOAN AND CREDIT AGREEMENTS:

Promsvyazbank
Pursuant to a loan facility agreement dated August 24, 2005, between the Group and JSCB Promsvyazbank (**''Promsvyazbank''**), Promsvyazbank granted to the Group a loan of RUB 160 million bearing an interest rate of 13% per annum and maturing on August 16, 2006; and a loan of RUB 100 million bearing an interest rate of 13.5% per annum and maturing on February 21, 2006. Security for the first loan was provided by Group companies through pledges over inventory for the total book value of RUB 337.2 million. Security for the second loan was provided by Group companies through pledges over inventory for the total book value of RUB 200 million.

Pursuant to a loan facility agreement dated February 28, 2005, between the Group and Promsvyazbank, Promsvyazbank granted a loan of RUB 200 million to the Group, bearing an interest rate of 12% per annum and maturing on February 28, 2006. Security for the loan was provided by Group companies through a pledge of bank accounts.

Alfa Bank
Pursuant to a loan facility agreement dated September 16, 2005, between the Group and Alfa Bank, OJSC Alfa Bank granted to the Group a loan of RUB 200 million bearing an interest rate of 12% per annum and maturing on March 16, 2006 and a loan of RUB 100 million bearing an interest rate of 12% per annum and maturing on March 28, 2006. Security for the loans was provided by sureties given by Group companies having a total book value of RUB 567 million. OJSC Alfa Bank is affiliated with one of our Managers, Alfa Capital Holdings.

Rosbank
Pursuant to a loan facility agreement dated March 23, 2005, between the Group and Rosbank, Rosbank granted a loan of RUB 165 million to the Group, bearing an interest rate of 13.5% per annum and maturing on November 30, 2005. Security for the loan was provided by sureties given by Group companies having a total book value of RUB 165 million.

Pursuant to a loan facility agreement dated August 18, 2005, between the Group and Rosbank, Rosbank granted a loan of RUB 150 million to the Group, with an interest rate of 12.5% per annum, maturing on November 19, 2005. Security for the loan was provided by sureties given by Group companies having a total book value of RUB 150 million.

Pursuant to a loan facility agreement dated September 16, 2005, between the Group and Rosbank, Rosbank granted a loan of RUB 350 million to the Group, with an interest rate of 11.5% per annum, maturing on December 28, 2005. Security for the loan was provided by sureties given by Group companies having a total book value of RUB 350 million.

Pursuant to a loan facility agreement dated February 21, 2005, between the Group and Rosbank, Rosbank granted a loan of RUB 28.8 million to the Group, with an interest rate of 12% per annum, maturing on December 1, 2005. Security for the loan was provided by Group companies through a pledge of bank accounts.

Ruble bonds
In October 2003, the Group issued 1,200,000 ruble denominated bonds with an aggregate face value of RUB 1,200 million. The bonds bear a coupon rate of 8% per annum and have a maturity date of November 15, 2007. Security of repayment for the bonds was provided by sureties given by Group companies having a total book value of RUB 1,300 million.

In December 2002, the Group issued ruble denominated bonds with a face value of RUB 600 million. The bonds bear a coupon rate of 19% and have a maturity date of December 23, 2005. Security of repayment for the bonds was provided by sureties given by Group companies having a total book value of RUB 700 million.

Moscow Narodny Bank
Pursuant to a loan facility agreement dated March 18, 2005, between the Group and Moscow Narodny Bank Limited (**''MNB''**), MNB granted a loan of USD 30 million to the Group for 39 months, bearing interest at Libor +3.3% and maturing on June 30, 2008. Security for the loan was provided by the assignment to MNB of

rights under contracts related to the export of polyamide-6 and carbon black products having a value of USD 30 million and sureties given by other Group companies.

Commerzbank

Pursuant to a credit agreement dated June 15, 2004, as amended on June 15, 2005, between ZAO Commerzbank (Eurasia) and the Group, ZAO Commerzbank (Eurasia) granted a loan of RUB 350 million to the Group, bearing an interest rate of 10.5% per annum payable quarterly and maturing on June 15, 2006. Security for the loan was provided by Group companies through sureties and guarantees granted by other Group companies with an aggregate book value of RUB 350 million.

ING/ABN Amro

Pursuant to a loan facility agreement dated April 22, 2005, between the Group, arranged by ABN Amro Bank and ING Bank, with ING Bank acting as facility agent and security agent, ABN Amro Bank and ING Bank granted the Group a loan of EUR 138,453,000 bearing a floating interest rate with a margin between EURIBOR +2.75% and EURIBOR +1.25% per annum depending on the borrowers' meeting certain conditions and due on May 31, 2010. Security for the loan was provided through a mortgage and pledge of assets of Vredestein with a total book value of EUR 148.5 million.

CLNs

Pursuant to two loan agreements dated June 28, 2005, between the Group and Emerging Markets Structured Products B.V. (**''EMSP''**), EMSP granted to the Group two loans from the proceeds of the issue of credit linked notes in an aggregate amount of USD 175 million. The first loan is for USD 150 million, bearing an interest rate of 9.25% and maturing on June 30, 2007. The second loan is for USD 25 million also bearing an interest rate of 9.25% and maturing on June 30, 2007. Security for the loans was provided by sureties of Group companies.

International Moscow Bank

Pursuant to a loan facility agreement dated January 19, 2005, between the Group and CJSC International Moscow Bank (**''IMB''**), IMB granted a loan facility of RUB 350 million to the Group, bearing an interest rate of 12% and maturing on January 19, 2008. Security for the loan was provided by sureties of other Group companies and a pledge of assets and equipment having a value of RUB 507.6 million.

Pursuant to a loan facility agreement dated October 13, 2003, between the Group and IMB, IMB granted a loan facility of RUB 150 million to the Group, bearing an interest rate of 11.75% and maturing on October 13, 2006. Security for the loan was provided by sureties of Group companies and a pledge of assets and equipment to the value of RUB 200 million.

Pursuant to the series of leasing contracts dated January 19, 2004, between the Group and IMB-Leasing, IMB-Leasing provided under the terms of a finance lease equipment for tire production having a total value of USD 12.5 million. Security was provided by sureties of other Group companies and a pledge of the leased equipment.

Russian-German Leasing

Pursuant to a leasing contract dated June 29, 2004, between CJSC Russian-German Leasing Company (**''RGLC''**) and the Group, RGLC provided to the Group under the terms of a finance lease equipment for tire production having a value of RUB 842.9 million. The Group provided a guarantee in favor of Sberbank to secure a credit line of EUR 24 million provided to RGLC to finance the purchase of the equipment. Certain Group companies also pledged fixed assets totaling RUB 589.2 million and provided sureties totaling RUB 842.9 million.

Vneshtorgbank

Pursuant to a series of eight loan facility agreements concluded in 2003, between the Group and JSC Vneshtorgbank (**''Vneshtorgbank''**), Vneshtorgbank granted loans totaling USD 4,193,000 and EUR 7,606,000 to the Group, with interest rates of 7.32% and 7.92% for USD denominated loans, and of 8.04% and 8.34% for EUR denominated loans, with all loans maturing on September 30, 2007. Security for the loans was provided by sureties of Group companies, pledge of shares of Amtel-Tchernozemye and a pledge of equipment having a net book value of RUB 305.8 million.

Amsterdam Trade Bank

Pursuant to a loan facility agreement dated October 21, 2005, between the Group and Amsterdam Trade Bank, Amsterdam Trade Bank granted a loan facility of EUR 50 million to the Group, bearing an interest rate of 9.59% and maturing on June 1, 2007. Security for the loan was provided by sureties of Group companies and a pledge of assets and equipment to the value of EUR 50 million. The Company drew down on EUR 20 million of such facility on October 24, 2005. The loan facility is to be used to finance the Group's acquisition of the KOLESO™ retail distribution network in Moscow. See ''Business–Strategy.''

MATERIAL REAL PROPERTY LEASES

Pursuant to lease agreement No. 178, dated as of January 1, 1998, between the Group and the Property Management Committee of Chekhov City, the Group leased a land plot with a total area of 120,900 square meters in respect of LLC Amtel Logistics Center. This lease expires on July 6, 2044.

OTHER MATERIAL AGREEMENTS

Pursuant to the terms of a sale purchase agreement dated April 22, 2005, between the Company and Vredestein Investment Consortium (VICO) N.V., the Group acquired 100% of the shares in Vredestein for EUR 196.5 million plus EUR 4.3 million in acquisition costs.

MATERIAL AGREEMENTS RELATING TO VREDESTEIN

On May 31, 2002, Vredestein entered into a sourcing agreement with Balkrishna Tires relating to the production and sale of agricultural tires by Balkrishna to Vredestein under an off-take arrangement.

On November 10, 2004, Vredestein entered into a sourcing agreement with P.T. Industri Karet Deli (Deli Tire) relating to the production and sale of industrial tires by P.T. Industri Karet Deli (Deli Tire) to Vredestein.

On September 7, 2005, Vredestein concluded the latest in a series of agreements with Giugiaro Design relating to the design and development of certain tire models. Vredestein is entitled to use the GIUGIARO DESIGN™ designation on the tire model and marketing materials for a period of seven years from the date contract.

General Information

(1) The Company was incorporated as Amtel Holdings Holland B.V., a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*), under the laws of the Netherlands by a notarial deed dated July 30, 2002. On September 2, 2004, the Company was converted into a public limited liability company (*naamloze vennootschap*) named Amtel Holdings Holland N.V. On October 4, 2005 the Company changed its name to Amtel-Vredestein N.V. The address of the Company is Herengracht 469, 1017 BS Amsterdam, the Netherlands, telephone No. + 31-20-522-62-00. The Company is registered in the Trade Register under the number 24337903.

(2) The following is a list of the Company's significant subsidiaries, their date of establishment, registered addresses, and principal business activities. The Company owns 100% of all such subsidiaries except for OJSC Tire Enterprise Amtel-Povolzhye, of which it owns 89.4%.

Name	Date established	Address of registered office	Principal business
Amtel Exports PTE Limited	25.08.1999	199, Arch Makariou III, Neocleous House, P.#. 3030, Limassol, Cyprus	Holding company
OJSC Amtel-Vredestein	27.06.2005	121170, Russia, Kutuzovsky pr-kt, 45, entr. 11	Holding and operating company
Amtel Enterprises Limited	12.07.1999	Omar Hodge Building, Wickhams Cay I, P.O. Box 362, Road Town, Tortola, British Virgin Islands.	Trading company
LLC Amtelshinprom	12.08.2002	121170, Russia, Kutuzovsky pr-kt, 45, entr. 11	Trading company
LLC AMTEL- Logistic Center	11.02.2005	142350, Russia, Moscow region, Chehovskiy r-n, st. Detkovo, 5	Warehouse
OJSC Tire Enterprise Amtel-Povolzhye	17.12.1992	610004, Russia, Kirovskiy region, Kirov, Energetikov street, 15	Tire producer
LLC Viatskaya Shina	02.06.2000	610004, Russia, Kirovskiy region, Kirov, Energetikov street, 15	Tire producer
LLC Amtel-Carbon	15.07.2003	400029, Russia, Volgogradskiy region, Volgograd, 40 let VLKSM street, 61	Raw materials producer
LLC Volgogradskiy zavod tehugleroda	26.08.2002	400029, Russia, Volgogradskiy region, Volgograd, 40 let VLKSM street, 61	Raw materials producer
OJSC Tire Enterprise Amtel-Tchernozemye	15.10.2001	394074, Russia, Voronezh region, Voronezh, Rostovskaya street, 41	Tire producer
LLC Amtel-Tchernozemye	11.03.2002	394074, Russia, Voronezh region, Voronezh, Rostovskaya street, 41	Tire producer
CJSC Tire Enterprise Amtel-Siberia	30.10.2001	660014, Russia, Krasnoyarskiy region, Krasnoyarsk, Tamborskaya street, 5	Holding company
CJSC Krasniy Yar Shina	18.02.1998	660014, Russia, Krasnoyarskiy region, Krasnoyarsk, Tamborskaya street, 5	Tire producer
LLC PO Krasnoyarskiy shinniy zavod	24.05.2001	660014, Russia, Krasnoyarskiy region, Krasnoyarsk, Tamborskaya street, 5	Tire producer
LLC Amtel-Kuzbass	29.03.2002	650036, Russia, Kemerovo region, Kemerovo, Tereshkovoy street, 39	Raw materials producer
LLC Khimvolokno Amtel-Kuzbass	20.12.2002	650036, Russia, Kemerovo region, Kemerovo, Tereshkovoy street, 39	Raw materials producer
Vredestein Banden B.V	29-12-1978	Ir. ELC Schiffstraat 370 7547 RD Enschede the Netherlands	Tire producer

(3) On September 22, 2005, the Executive Board resolved to enter into, on terms the CEO may deem appropriate, the Underwriting Agreement, the Deposit Agreement and the Deed Poll and to make an application to the AFM for approval of the publication of this Prospectus, to the U.K. Listing Authority for the admission of the GDRs to the Official List of the U.K. Listing Authority and for such GDRs to be admitted to trading on the London Stock Exchange's Market for Listed Securities. On September 26, 2005 the Supervisory Board authorized the entry into the Underwriting Agreement, the Deposit Agreement and the Deed Poll and approved the resolution of the Executive Board of September 22, 2005.

(4) On October 7, 2005, the Supervisory Board resolved to issue Ordinary Shares in connection with the Offering up to the total authorized share capital of the Company, and to exclude the preemptive rights of existing ordinary shareholders with respect thereto and to grant a power of attorney to the following members of the Supervisory Board: Messrs. Sudhir Gupta, Daniel Gupta and David Wack to resolve in a separate resolution of the Supervisory Board the exact number of shares to be issued in connection with the Offering. On November 11, 2005, pursuant to the October 7, 2005 resolution, the Supervisory Board resolved to issue the Shares and to exclude the preemptive rights of the existing shareholders with respect thereto.

(5) Admission to the Official List of the U.K. Listing Authority and to trading on the London Stock Exchange market for the GDRs is expected to take place on November 18, 2005, following closing and settlement on November 17, 2005.

(6) There has been no significant change in the financial or trading position of the Company or the Group since June 30, 2005 (the date of the latest Group Interim Financial Statements), and no material adverse change in the financial position or prospects of the Company or the Group since December 31, 2004 (the date of the latest audited Group Annual Financial Statements).

(7) The Group is not, and has not been involved in, any governmental, legal or arbitration proceedings that may have or have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group; the Company is not aware that any such proceedings are pending or threatened.

(8) Copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the office of Vredestein, at Ir. E.L.C. Schiff Sr. straat 370, P.O. Box 27, 7500 AA Enschede, The Netherlands, from the date of this Prospectus until twelve months after the date of this Prospectus:

➤ The Company's articles of association (English translation).

➤ The Deposit Agreement and Deed Poll.

➤ The Underwriting Agreement.

➤ Copies of the Group Annual Financial Statements together with the auditors' report relating thereto.

➤ Copies of the Group Interim Financial Statements and the report by KPMG on their review of such accounts.

➤ Copies of the Company's unaudited stand-alone balance sheet as of December 31, 2002 and information on shareholders' equity as of December 31, 2002 (along with the accompanying notes), prepared in accordance with Dutch GAAP, as filed with the Trade Register, and the Company's audited consolidated balance sheet as of December 31, 2002, prepared in accordance with IFRS (the **''Company's 2002 Financial Statements''**).

➤ Copies of the Vredestein Annual Financial Statements.

➤ Copies of the Vredestein Interim Financial Statements.

➤ A copy of this Prospectus.

In addition, this Prospectus will be available at the London Stock Exchange through the Regulatory News Service.

(9) The Company prepares annual and interim consolidated financial statements in accordance with IFRS. Copies of the Company's future annual audited consolidated financial statements and unaudited interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the office of Vredestein, at Ir. E.L.C. Schiff Sr. straat 370, P.O. Box 27, 7500 AA Enschede, the Netherlands.

(10) 2002 Financial Information

➤ *2002 Financial Statements Included in the Prospectus:* The Company's 2002 Financial Statements do not include audited consolidated income, cash flow and changes in shareholders' equity statements for the year ended December 31, 2002. In respect of 2002, this Prospectus includes only: (1) the Company's unaudited stand-alone balance sheet as of December 31, 2002 and information on shareholders' equity as at December 31, 2002 (along with the accompanying notes), prepared in accordance with Dutch GAAP, as filed with the Trade Register, and (2) the Company's audited consolidated balance sheet as of December 31, 2002, prepared in accordance with IFRS.

➤ *Holding Company Acquisition:* The Company was incorporated on July 30, 2002. It did not conduct business, did not have any subsidiaries and did not have any material assets or liabilities until its acquisition on December 31, 2002, of certain intermediate holding companies from an affiliate of its founding shareholder (the **''Holding Company Acquisition''**). These intermediate holding companies held ownership interests in numerous production and trading companies, a significant part of which now comprises the business of the Group. The total amount of investment in the Holding Company Acquisition was approximately RUB 315 million.

➤ *Small Company Exemption:* The Company did not (and was not required to) prepare and file with the Trade Register any financial statements for the year ended December 31, 2002, other than the stand-alone Dutch GAAP financial information referred to above as it fell within the exemption for 'small' companies as provided for in article 396 juncto article 407 sub 2 of Book 2 of the Dutch Civil Code.

➤ *Explanation for Absence of Certain Historical Financial Statements:* Given the absence of any operations or material assets or liabilities before the Holding Company Acquisition, any income, cash flow and changes in shareholders' equity statements for the year ended December 31, 2002, for the Company on a historical basis for any period prior to that acquisition would not provide any meaningful information about the Group's business.

➤ *Explanation for Absence of Combined Financial Statements:* Consolidated income, cash flow and changes in shareholders' equity statements of the Group for the year ended December 31, 2002, on the assumption that the Holding Company Acquisition occurred at the beginning of the period on January 1, 2002, would illustrate the results of operations of the Group's business for 2002 as it existed then. However, the Company does not believe it would now be possible, as a practical matter, to prepare reliable 2002 Combined Financial Statements in respect of which the Company's auditors would undertake an audit engagement. This is because of insufficient underlying accounting records and source documents necessary for the Company's auditors to undertake an audit engagement for those 2002 Financial Statements if they were prepared. The insufficiency of such underlying information is, among other things, as a result of subsequent disposals of several significant trading subsidiaries that were part of the Group in 2002.

(11) The Group has not always timely complied with requirements for the preparation, adoption and filing of its financial statements under Dutch law, which may qualify as an offense under the Dutch Economic Offenses Act.

(12) If definitive certificates are issued in exchange for the master GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

(13) The total fees and expenses of the Company in connection with the Offering are estimated to be no greater than USD 12,131,918.

(14) The ISIN for the US03235R1014, the Common Code for the GDRs is 023384507 and the SEDOL for the GDRs is BONQB23.

Obtaining Information about the Group

The Company's administrative offices are located at 45 Kutuzovsky Prospect, Entrance 11, 121170 Moscow, Russian Federation, telephone +7-095-981-98-18. In accordance with Dutch law, the Company's accounts and the Articles are available from the Trade Register. The Company also makes these documents available at its registered office located at Herengracht 469, 1017 BS Amsterdam, the Netherlands, telephone + 31-20-522-62-00. The Articles require the Company to make its annual accounts, annual statutory report and auditors' statutory report available to its shareholders at its registered office from the day on which notice of the annual shareholders' meeting is given until the close of the meeting. In addition, the Company must send these documents to registered shareholders at the same time as the notice convening the meeting. Holders of the certificated GDRs will not automatically be sent these documents. Each holder of certificated GDRs may, however, obtain a copy of these items, without charge, by presenting his or her certificated GDRs at the locations specified in the notice of meeting. For future periods, Group consolidated and statutory annual reports will be made available at the Company's head offices. Any interested party may, upon written request, obtain a copy of these items without charge. Neither such document nor the information included on the Company's website forms part of this Prospectus.

The Company has agreed to furnish the Depositary with all notices of meetings of the holders of Shares and certain other reports and communications that are generally made available to holders of Shares as the Depositary may reasonably request. Such notices of convening General Meetings shall also be given by publication in a daily newspaper with a national circulation in the Netherlands. In addition, the Company will provide the Depositary with the annual consolidated and semiannual financial statements prepared in conformity with IFRS in the English language. Upon receipt thereof, the Depositary will make available such reports, notices and communications to all recorded holders of the GDRs.

Independent Auditors

KPMG Limited (**''KPMG Russia''**), independent auditors, 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, has audited the Group Annual Financial Statements, and KPMG Accountants N.V., independent auditors, Hengelosestraat 581, 7521 AG Enschede, the Netherlands (**''KPMG Netherlands''** and collectively with KPMG Russia, **''KPMG''**) have audited the Vredestein Annual Financial Statements. KPMG's audit reports in respect of the Group Annual Financial Statements and the Vredestein Annual Financial Statements each expressed unqualified opinions.

KPMG has reviewed, but not audited, the Group Interim Financial Statements and the Vredestein Interim Financial Statements.

The audit reports and the review reports are included in the Prospectus in the form and context in which they are included, with the consent of KPMG, who have authorized the contents of that part of the Listing Particulars for the purposes of Prospectus Rule 5.5.3R (2)(f).

KPMG Russia is registered with the Public Company Accounting Oversight Board (PCAOB). KPMG Netherlands is registered with the Royal Dutch Institute of Registered Accountants (*Koninklijk Nederlands Instituut van Registeraccountants*).

Index to Financial Statements

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AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)

Consolidated Balance Sheet
as of 31 December 2002
and
Consolidated Financial Statements
as of and for the years ended
31 December 2003 and 2004

Contents

The Directors
Amtel-Vredestein N.V.

We report on the financial information set out on pages 4 to 46(*). This financial information has been prepared for inclusion in the prospectus of the Company dated 11 November 2005 on basis of the accounting policies set out in note 3 to the financial information. This report is required by paragraph 20.1 of Annex X of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities
The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of Opinion
We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom and International Standards on Auditing. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion
In our opinion, the financial information gives true and fair view for the purposes of the prospectus dated 11 November 2005, of the financial position of Amtel-Vredestein N.V. as of 31 December 2004, 2003 and 2002 and the results of its operations and its cash flows for the years ended 31 December 2004 and 31 December 2003 in accordance with the basis of preparation set out in note 2 and in accordance with International Financial Reporting Standards.

Declaration
We are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex X of the Prospectus Directive Regulation.

KPMG Limited

KPMG Limited
11 November 2005

(*) *The reference to pages 4 to 46 relates to pages F-6 to F-39 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)
Consolidated statements of income for the years ended 31 December 2004 and 2003

	Note	2004 RUB million	2003 RUB million
Revenues	8	13,850	11,281
Cost of sales excluding depreciation charge		(11,126)	(9,203)
Gross profit before depreciation		2,724	2,078
Depreciation charge related to cost of sales		(739)	(742)
Gross profit		1,985	1,336
Other operating income	4	166	–
Distribution expenses		(450)	(303)
Administrative expenses	9	(972)	(530)
Taxes, other than on profit		(78)	(112)
Impairment losses and reversal of impairment losses, net	10	60	(1,026)
Loss on disposal of property, plant and equipment		(42)	(64)
Gains and losses related to acquisitions, restructuring and disposals of subsidiaries	11	63	1,042
Other operating expenses		(125)	(284)
Profit from operations		607	59
Net financing expenses	13	(631)	(283)
(Loss)/income from investments in joint venture		(11)	20
Loss before tax		(35)	(204)
Income tax benefit	14	2	192
Loss after tax		(33)	(12)
Minority interest		162	268
Net profit for the year		129	256
Basic and diluted earnings per share, RUB	26	30	61

The consolidated statements of income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 46(*).

The consolidated financial statements were approved on 11 November 2005:

Alexei Gurin
Chief Executive Officer

Victor Nekrassov
Chief Financial Officer

(*) *The reference to pages 9 to 46 relates to pages F-10 to F-39 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)
Consolidated balance sheets as of 31 December 2004, 2003 and 2002

	Note	2004 RUB million	2003 RUB million	2002 RUB million
ASSETS				
Non-current assets				
Property, plant and equipment	15	7,750	7,514	8,671
Intangible assets	16	2,403	2,332	2,237
Long-term financial assets	17	230	52	24
Deferred tax assets	18	68	64	2
		10,451	9,962	10,934
Current assets				
Short-term financial assets		96	155	3
Inventories	19	1,909	1,588	1,213
Trade and other receivables	20	2,124	2,269	1,275
Cash and cash equivalents	21	195	326	347
		4,324	4,338	2,838
Total assets		14,775	14,300	13,772
EQUITY AND LIABILITIES				
Equity	22			
Share capital		2	1	1
Share premium		272	–	–
Additional paid in capital		5,888	5,888	5,888
Retained earnings		117	(12)	–
		6,279	5,877	5,889
Minority interest		302	1,562	2,585
Non-current liabilities				
Long-term payables		–	–	113
Finance lease liabilities	24	822	35	11
Deferred tax liabilities	18	755	1,224	1,553
Long-term loans and borrowings	23	2,019	2,242	308
		3,596	3,501	1,985
Current liabilities				
Bank overdraft	21	–	10	54
Trade and other payables	25	1,785	2,009	2,758
Short-term loans and borrowings	23	2,813	1,341	501
		4,598	3,360	3,313
Total equity, minority interest and liabilities		14,775	14,300	13,772

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 46(*).

(*) *The reference to pages 9 to 46 relates to pages F-10 to F-39 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)
Consolidated statements of cash flows for the years ended 31 December 2004 and 2003

	2004 RUB million	2003 RUB million
OPERATING ACTIVITIES		
Net profit for the year	129	256
Adjustments for:		
Depreciation and amortisation expense	752	758
Interest expense	691	241
Interest income	(76)	–
Impairment losses/(reversal of impairment losses)	(60)	1,026
Result of disposal of investments	17	–
(Gain)/loss on disposal of subsidiaries	(63)	236
Loss on disposal of property, plant and equipment	42	64
Share of (income)/loss in joint venture	11	(20)
Income tax benefit	(2)	(192)
Minority interest	(162)	(268)
Gain on derecognition of liabilities	–	(761)
Excess of acquirer's share in net assets of the acquiree over cost of investment	–	(517)
Operating profit before changes in working capital and provisions	1,279	823
Increase in inventories	(862)	(375)
Increase in trade and other receivables	(763)	(789)
Increase in trade and other payables	977	173
Cash flows from/(used in) operations before income taxes and interest paid	631	(168)
Income tax paid	(278)	(122)
Cash flows from/(used in) operating activities	353	(290)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(1,414)	(961)
Acquisition of intangible assets	(6)	–
Acquisition of shares in subsidiaries	(432)	(909)
Disposal/(acquisition) of investments	120	(160)
Interest received	15	–
Proceeds from disposal of property, plant and equipment	10	17
Proceeds from disposal of subsidiaries, net of cash disposed of	–	343
Cash flows used in investing activities	(1,707)	(1,670)
FINANCING ACTIVITIES		
Proceeds from issue of preferred shares	139	306
Proceeds from issue of ordinary shares, net of issue costs	273	–
Proceeds from borrowings	10,029	5,100
Repayment of borrowings	(8,546)	(2,566)
Withdrawals by controlling shareholder	(209)	(616)
Contribution by controlling shareholder	209	–
Interest paid	(662)	(241)
Cash flows from financing activities	1,233	1,983
Net increase in cash and cash equivalents	(121)	23
Cash and cash equivalents at beginning of year	316	293
Cash and cash equivalents at end of year (note 21)	195	316

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 46(*).

(*) *The reference to pages 9 to 46 relates to pages F-10 to F-39 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)
Consolidated statements of changes in equity for the years ended 31 December 2004 and 2003

	Note	Share capital	Share premium	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Total
				RUB million			
Balance at 1 January 2003		1	–	5,888	–	–	5,889
Write off of negative goodwill	3(a)	–	–	–	–	193	193
Realized foreign exchange differences		–	–	–	(83)	–	(83)
Net profit for the year		–	–	–	83	256	339
Withdrawals by the controlling shareholder	22(e)	–	–	–	–	(461)	(461)
Balance at 31 December 2003		1	–	5,888	–	(12)	5,877
Share issue	22	1	272	–	–	–	273
Net profit for the year		–	–	–	–	129	129
Contribution from the controlling shareholder	22(e)	–	–	–	–	209	209
Withdrawals by the controlling shareholder	22(e)	–	–	–	–	(209)	(209)
Balance at 31 December 2004		2	272	5,888	–	117	6,279

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 46(*).

(*) *The reference to pages 9 to 46 relates to pages F-10 to F-39 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)
Notes to the consolidated balance sheet as of 31 December 2002 and consolidated financial statements as of and for the years ended 31 December 2003 and 2004

1. Background

(a) Organisation

Amtel Holdings Holland N.V. (''the Parent Company'', ''the Company'') was incorporated by Amtel Luxemburg S.A. as a private company with limited liability (Besloten Vennootschap) on 30 July 2002 in accordance with the Civil Law of the Netherlands. In August 2004 the Company was reorganized to a public limited liability company (Naamloze Vennootschap). The Company has been operating under the laws of the Netherlands, with its registered office at Herengracht 469, 1017 BS Amsterdam, the Netherlands.

In December 2002, the Parent Company issued 1 ordinary share to a company controlled by its controlling shareholder in exchange for the controlling interest in subsidiaries representing the shareholder's tyre manufacturing business. This transaction represented a business combination under common control. Management elected to account for the acquisition at fair value. The fair values of the net identifiable assets at the date of acquisition are the same as those related in the consolidated balance sheet as of 31 December 2002. This transaction is further referred to as the ''Acquisition Transaction''.

These consolidated financial statements comprise the Parent Company, its subsidiaries (further referred to as ''the Group'' or ''Amtel Group''), and the Group's interest in a jointly controlled entity.

(b) Operations

The Group operates in the tyre manufacturing and distribution business. The Group includes a number of tyre production facilities located in Russia and the Ukraine. The plants produce a wide range of tyres for a variety of vehicles, including passenger cars, trucks, aircrafts, agricultural and military vehicles and bicycles. The Group companies also include facilities for the production of chemical fibres, cords and black carbon, which provide raw materials in the production of tyres. The products of the Group are distributed in Russia and abroad.

(c) Related party transactions

The Group is ultimately controlled by a single individual, Mr. Sudhir Gupta, who has the power to direct the transactions of the Group at his discretion and for his own benefit. He also has a number of other business interests outside of the Group. Consequently there are a number of related party transactions–refer notes 7, 22(e), 29(c) and 30–many involving the Group's interests in subsidiaries.

(d) Russian and Ukrainian business environment

The Russian Federation and the Ukraine have been experiencing political and economic change that has affected, and may continue to affect, the activities of the enterprises operating in this environment. Consequently, operations in the Russian Federation and the Ukraine involve risks that typically do not exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian and the Ukrainian business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (''IFRS'') and related interpretations adopted by the International Accounting Standards Board (''IASB'').

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except that financial instruments available for sale are stated at fair value.

(c) Measurement and presentation currency

The national currency of the Russian Federation is the Russian Rouble (''RUB''), which is the Parent Company's measurement currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Going concern
As of 31 December 2004 the Group's current liabilities exceeded its current assets by RUB 274 million (2003: positive net current assets of RUB 978 million; 2002: negative net current assets of RUB 475 million).

Subsequent to the year end, management implemented certain actions in order to improve the current liquidity of the Group, including the issue of new shares and long-term borrowings–refer note 33.

(e) Use of estimates
Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. Significant accounting policies
The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Early adoption
Management elected to apply the requirements of IFRS 3 *Business Combinations* to goodwill existing at or acquired after, and to business combinations occurring from, 1 January 2003. As a consequence, the Group also applied the following revised standards before their effective dates: IAS 36 *Impairment of Assets,* IAS 38 *Intangible Assets.* Management also elected to early adopt IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

As a result of the early adoption of IFRS 3 and related standards:

➤ the carrying amount of negative goodwill as of 1 January 2003 amounting to RUB 193 million, which arose on the Acquisition transaction (refer note 1(a)) was credited to the opening retained earnings as of 1 January 2003;

➤ the carrying amount of goodwill as of 1 January 2003 amounting to RUB 2,430 million, which arose on the Acquisition transaction (refer note 1(a)), was not amortised, but is tested annually for impairment.

(b) Basis of consolidation

(i) Subsidiaries
Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Jointly controlled entities
Jointly controlled enterprises are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of a joint venture on an equity accounted basis, from the date that joint control effectively commences until the date that joint control effectively ceases.

(iii) Transactions eliminated on consolidation
Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with jointly controlled entities are eliminated against the investment in the jointly controlled entity. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(c) Business combinations

(i) Acquisitions of controlling interests
Acquisitions of controlling interests in businesses are accounted for by recognizing the difference between the consideration paid and the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition as goodwill or negative goodwill. Acquisitions from related parties are accounted for in the same way.

(ii) Acquisitions of minority interests
Acquisitions of minority interests in Group subsidiaries, are accounted for based on existing carrying amounts. The difference between the consideration paid and the carrying amount of the minority interest acquired is accounted for as goodwill or negative goodwill. Acquisitions of minority interests from related parties are accounted for in the same way.

(iii) Disposal of minority interests
The gain or loss on disposal of minority interests where the Group retains control over the subsidiary after the disposal, representing the difference between the consideration received and the decrease in the carrying amount of the Group's share in the net assets of the subsidiary including attributable goodwill, is recognised in the income statement. Disposal of minority interests to related parties are accounted for in the same way.

(iv) Sales of controlling interests
The gain or loss on the sale of a subsidiary, representing the difference between the consideration received and the net assets of the subsidiary including attributable goodwill, is recognised in the income statement. Disposals to related parties are accounted for in the same way.

(d) Foreign currencies
Transactions in foreign currencies are translated to the respective measurement currency of each enterprise in the Group at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the measurement currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign entities are translated into RUB at the exchange rate at the end of the year. Revenues and expenses are translated into RUB using rates approximating exchange rates at the dates of the transactions. The resulting exchange difference is recorded directly in equity in the foreign currency translation reserve.

(e) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Cost of property, plant and equipment acquired as part of the business combination (refer 1(a)) was determined by reference to its fair value at the date of the business combination, which was determined by American Appraisal (AAR), Inc., an independent valuer.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure
Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated average remaining useful lives are as follows:

Buildings	8 to 20 years
Plant and equipment	3 to 10 years
Fixtures and fittings	3 to 7 years

(f) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill
Goodwill arising on acquisitions represents the excess of the cost of the acquisition over the fair value of the net identifiable assets. Negative goodwill arising on acquisitions represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

(ii) Other intangible assets
Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date the asset is available for use.

The estimated remaining useful lives are as follows:

Land lease right	43 years
Other	3 to 5 years

(g) Investments
Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Investments available for sale are stated at fair value, with any resultant gain or loss being recognised in the income statement. The fair value of investments available for sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(h) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Trade and other receivables
Trade and other receivables are stated at cost less impairment losses.

(j) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amount of goodwill is tested for impairment annually. The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of loans or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, the accumulation of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on the revaluation and disposal of investments available for sale.

Borrowing costs are expensed in the period when incurred except for those, which are directly attributable to the acquisition, construction or production of the qualifying asset. Such borrowing costs are capitalized as part of the costs of the asset when it is probable that they will result in future economic benefits to the company and the costs can be measured reliably.

(r) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(s) Employee benefits

The Group makes contributions for the benefit of employees to Russia's and the Ukrainian State pension funds. The contributions are expensed as incurred.

Equity benefits awarded to employees are recognised as a capital contribution in the year of issue based on the amount paid by the employee. Cash awarded in lieu of equity benefits is recognised as an expense when paid.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) Discontinuing operation

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a major separate line of business or geographical area of operations.

4. Consolidation of ZAO Rosava

In December 2003 the Group entered into an agreement to sell its 51% shareholding in ZAO SP Rosava (subsequently renamed to ZAO Rosava). The loss on disposal of the shares of RUB 165 million was recognised in 2003 as part of the gains and losses related to acquisitions, restructuring and disposals of subsidiaries.

In addition to the agreement to sell the shares, the Group concluded call option agreements with the purchasing parties (the ''Acquirer'') to buy back the shares by 31 December 2004 for a fixed amount. Management believed that the option agreements empowered the Group to govern the financial and operating policies of ZAO Rosava and ownership benefits were received via a fee arrangement. Consequently, ZAO Rosava was consolidated as of 31 December 2003 and continued as part of the Group throughout 2004, with a minority interest of 100% recorded against the net assets and the net result of the Company.

During 2004 the following major transactions took place:

- ZAO Rosava issued additional shares to the Acquirer. As a result, the Acquirer's interest in ZAO Rosava increased from 51% to 76%.

- The Group received RUB 166 million of fees from the Acquirer as compensation for the use of the subsidiary's resources. The fees were recorded as other operating income.

- ZAO Rosava accrued a liability of RUB 332 million to its legal shareholders. The reduction in the net assets of the subsidiary, net of the tax effect of RUB 83 million, was recorded as an equity distribution to minority shareholders in these consolidated financial statements.

In December 2004 the above options lapsed, although the parties continued discussions about the sale of the share in ZAO Rosava to the Group. In June 2005 the Group announced that it no longer intended to pursue the acquisition of the minority interest in ZAO Rosava. ZAO Rosava was deconsolidated as of 31 December 2004 and is presented as a discontinuing operation in these consolidated financial statements–refer note 6.

5. Segment reporting

Segment information is presented in respect of the Group's geographical and business segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing loans and related interest expenses, current and deferred profits tax balances and related expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

(a) Geographical segments

The Group's activities are managed from Moscow, Russia. The Group operated in two principal different geographical markets: Russia and the Ukraine.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets, which is the same as the geographical location of customers.

A decision was made to discontinue the Ukrainian geographical segment in June 2005–refer note 6.

(b) Business segments

The Group comprises the following main business segments:

Tyres: The manufacture and sale of tyres for a variety of vehicles, including passenger cars, trucks, aircrafts, agricultural and military vehicles and bicycles.

Raw materials: The manufacture and sale of chemical fibres, cords and black carbon. These materials are both used for tyre production at the group plants and sold to third parties.

(i) Geographical segment

	Year ended 31 December 2004			
	Russia	Ukraine	Elimination RUB million	Consolidated
Revenue from external customers	10,525	3,325	–	13,850
Inter-segment revenue	–	2	(2)	–
Segment revenues	10,525	3,327	(2)	13,850
Segment result	546	107	–	653
Unallocated income and expenses, net				(46)
Profit from operations				607
Segment assets	14,605	–	–	14,605
Investments in joint venture	39	–	–	39
Unallocated assets				131
Total assets				14,775
Segment liabilities	1,644	–	–	1,644
Unallocated liabilities				6,550
Total liabilities				8,194
Other information				
Capital expenditure	2,145	171	–	2,316
Depreciation/amortisation	605	147	–	752
Reversal of impairment losses	60	–	–	60
Gains and (losses) related to acquisitions, restructuring and disposals of subsidiaries	63	–	–	63

	Year ended 31 December 2003:			
	Russia	Ukraine	Elimination RUB million	Consolidated
Revenue from external customers	9,040	2,241	–	11,281
Inter-segment revenue	–	41	–41	–
Segment revenues	9,040	2,282	–41	11,281
Segment result	911	(836)	–	75
Unallocated income and expenses, net				–16
Profit from operations				59
Segment assets	11,903	2,280	–	14,183
Investments in joint venture	50	–	–	50
Unallocated assets				67
Total assets				14,300
Segment liabilities	1,448	504	–	1,952
Unallocated liabilities				4,909
Total liabilities				6,861
Other information				
Capital expenditure	909	52	–	961
Depreciation/amortisation	532	226	–	758
Impairment losses	452	574	–	(1,026)
Gains and (losses) related to acquisitions, restructuring and disposals of subsidiaries	1,278	(236)	–	1,042

	Year ended 31 December 2002		
	Russia	Ukraine RUB million	Consolidated
Segment assets	10,237	3,499	13,736
Unallocated assets			36
Total assets			13,772
Segment liabilities	2,254	602	2,856
Unallocated liabilities			2,442
Total liabilities			5,298

(ii) Business segment

	Revenue from external customers		Segment assets			Capital expenditure	
	2004	2003	2004	2003 RUB million	2002	2004	2003
Tyres	11,864	9,362	12,767	12,765	11,797	2,230	897
Raw materials	1,838	1,625	1,438	1,418	1,939	61	64
Other operations	148	294	400	–	–	430	–
Consolidated	13,850	11,281	14,605	14,183	13,736	2,721	961

6. Discontinuing operation

(a) Description

Discontinuing operations comprise the Group's tyre production and distribution activities in the Ukraine which were represented by ZAO Rosava, the Group's subsidiary.

The discontinuing operations constituted the Ukrainian geographical segment, being the primary reporting segment–refer note 5(a). The subsidiary produced tyres and, consequently, was included in the Tyres segment, the secondary business segment.

(b) Financial information attributable to the discontinuing operations

	2004 RUB million	2003 RUB million	2002 RUB million
Assets	–	2,290	3,761
Liabilities	–	(1,179)	1,764
Revenues from external customers	3,325	2,241	
Expenses	(3,311)	(3,120)	
Profit/(loss) before taxation	14	(879)	
Income tax benefit	31	201	
Cash flows from operating activities	245	(99)	
Cash flows from investing activities	(7)	(52)	
Cash flows from financing activities	(27)	269	

7. Changes in the composition of the Group

(a) Transactions with related parties

OOO Amtelshinprom

In June 2004, the Group sold a 10% interest in OOO Amtelshinprom. The sale of shares in OOO Amtelshinprom resulted in the decrease of the Group's effective interest in the following subsidiaries: OOO

Amtelshinprom-Chernozemye, OOO Amtelshinprom-Krasnoyarsk, OOO Amtelshinprom-Severo-Zapad, OOO Amtelshinprom-Sibir', OOO Amtelshinprom-Yug.

The shares were sold to companies controlled by the controlling shareholder of the Group with the intention that these shares be held by the acquiring companies on a temporary basis and then returned to the Group. The management of the acquiring companies had limited ability to control the above shares, and held the shares on behalf of the Group. The Group re-acquired the shares in July 2004. For the purpose of these financial statements, the above transactions were not accounted for as a share disposal and subsequent repurchase.

OAO Shinny Komplex Amtel-Povolzhye
In June 2004, the Group sold a 15% interest in OAO Shinny Komplex Amtel-Povolzhye (Kirov tyre plant). The sale of shares in OAO Shinny Komplex Amtel-Povolzhye resulted also in the decrease of the Group's effective interest in the following subsidiaries: OOO Vyatskaya Shina and OOO Kirovsky Shinny Zavod TD.

The shares were sold to a related party.

In addition, the Group entered into an option agreement with the acquiring company for the re-purchase of shares exercisable at any time in the future for a negligible price.

The management of the acquiring company has limited ability to control the above shares, and holds the shares on behalf of the Group. For the purpose of these financial statements, the above transaction was not accounted for as a share disposal. Refer note 29(c) for contingencies related to the antimonopoly regulations.

OOO Vyatskaya Shina
In June 2004, the Group sold a 54% interest in OOO Vyatskaya Shina from Vorsella Holdings Limited to OAO Shinny Komplex Amtel-Povolzhye. At the time of the transaction, both selling and acquiring parties were subsidiaries of the Group. This transaction resulted in the decrease of the effective interest of the Group in the subsidiary from 71% to 63%. The decrease was accounted for as a disposal of minority interests.

(b) Incorporation of new subsidiaries
During 2003 the Group incorporated the following significant new companies:

Name	Country of domicile	Shareholding at date of incorporation %
OOO TD Kirovsky shinny zavod	Russia	86%
OOO Amtel-Carbon	Russia	100%
Melina Investments	Cyprus	100%

(c) Intragroup transfer of production assets
In December 2002 Amtel Holdings Holland B.V. purchased shares constituting majority shareholding in certain production companies (''predecessor companies''). In addition, the Group companies incorporated new wholly-owned subsidiaries in order to take over the production assets of the predecessor companies. The new subsidiaries and the predecessor companies (as presented below) were both controlled by the Amtel Group at the time that the production assets were transferred. As a result of such transfers, the predecessor companies can no longer continue as going concerns, and are being disposed of.

The following is the list of new subsidiaries and their corresponding predecessor companies:

New subsidiaries incorporated by the Group	Predecessor company	Date of disposal
ZAO Krasny Yar-shina	OAO Krasnoyarsky shinny zavod	2003
	OAO Supershina	2004
OOO Amtel-Carbon	OAO PO Tekhuglerod	2003
	OAO Volgogradsky zavod tekhnicheskogo ugleroda	2003

The transfers of the production assets from the predecessor companies to the new subsidiaries were accounted for as acquisitions of increased shareholdings on the date of the transfer transactions–refer note 29(b).

(d) Acquisition of subsidiary

In December 2004 the Group acquired 99.8% shares in OAO Chekhovskaya Basa Materialno-Technicheskogo Snabsheniya (subsequently renamed to OOO Amtel–Logistics Center) for RUB 389 million from a related party.

The purchase price was allocated to the acquired assets as follows:

	RUB million
Buildings	332
Land lease right	67
Liabilities	(10)
Consideration paid	389

The price allocation was made by reference to the fair value of the assets acquired as determined by an independent appraiser. The assets of the company had no attributable goodwill.

It was not practicable to determine the carrying amount of the buildings and liabilities on an IFRS basis immediately prior to the acquisition since the acquiree previously prepared financial statements in accordance with Russian Accounting Principles, which are significantly different from IFRS. However, in respect of the land lease right, the carrying amount prior to the acquisition under IFRS would have been zero.

If the acquisition had occurred on 1 January 2004, revenue and net profit for the year would not have been materially different.

(e) Acquisition of minority interests

(i) Year ended 31 December 2003

ZAO Shinny Komolex Amtel-Sibir', OAO Shinny Komplex Amtel Chernozemye, OAO Kirovsky shinny zavod

During 2003 the Group increased its shareholding in the following Group subsidiaries:

Company	Shares acquired in 2003 %	Shares acquired in previous periods %
ZAO Shinny Komplex Amtel-Sibir'	25	75
OAO Shinny Komplex Amtel Chernozemye	24	76
OAO Kirovsky shinny zavod	30	56

With the acquisition of the shares in the above companies, the Group also increased its effective shareholdings in ZAO Krasny Yar-Shina, OAO Krasnoyarsky shinny zavod, OAO Supershina, ZAO Sibirskaya shina, OOO TD Krasnoyarsky shinny zavod, OOO Krasshina Invest, OOO Amtel Chernozemye, OOO Vyatskaya shina, OOO Amtelshinprom.

(ii) Year ended 31 December 2004

OOO Vyatskaya shina

In December 2004 the Group acquired 27% of the shares in OOO Vyatskaya shina, a group subsidiary, from an unrelated party for RUB 33 million. As a result of the transaction, the Group's interest in OOO Vyatskaya shina increased to 86%, which was accounted for as an acquisition of minority interests.

(f) Disposal of subsidiaries

(i) Year ended 31 December 2003

OAO Chernigov Khimvolokno Amtel

In January 2003 the Group sold 42% out of 48% of the shares in OAO Chernigov Khimvolokno Amtel. During 2004 the Group disposed of the residual interest.

ZAO Rosava
In December 2003 the Group entered into an agreement to sell its 51% interest in ZAO Rosava—refer note 4.

(ii) Year ended 31 December 2004

OAO Krasnoyarsky Zavod RTI
In June 2004, the Group disposed of its 51% interest in OAO Krasnoyarsky Zavod RTI to a company related to the Group as part of the overall process of liquidating this company. With the disposal of the shares in OAO Krasnoyarsky Zavod RTI, the Group also lost control over OOO Sibelast, a 100% subsidiary of OAO Krasnoyarsky Zavod RTI.

OAO Supershina
In June 2004, the Group disposed of a 51% interest in OAO Supershina to a company related to the Group as part of the overall process of liquidation of OAO Supershina.

OOO Carbon-Trading
In December 2004, the Group disposed of its interest in OOO Carbon-Trading to an unrelated party.

Vorsella Holdings Limited, Soparvi Holdings Limited, Astley Holdings Limited, Geroc Holdings Limited

In December 2004 the Group disposed of 100% of the shares in Vorsella Holdings Ltd, Soparvi Holdings Limited, Astley Holdings Limited, Geroc Holdings Limited at a negligible price to a related party. With the disposal of the above companies the Group lost control over their subsidiaries, namely: OOO Krasnoyarsky shinny zavod and OOO Volgogradsky Techuglerod.

(g) Effect of disposal of subsidiaries on the Group's assets and liabilities

	Note	2004 RUB million	2003 RUB million
Property, plant and equipment		(1,587)	(329)
Other assets		(2,104)	(157)
Liabilities		3,004	197
		(687)	(289)
(Increase)/decrease in minority interest		750	(452)
Group's share of the net assets disposed of		63	(741)
Cumulative foreign exchange differences derecognized on disposal of subsidiary		–	(83)
Goodwill derecognised		–	(90)
(Gain)/loss on disposal	11	(63)	236
Fair value of consideration receivable		–	(678)
Balance settled in cash		–	343
Receivables outstanding at 31 December		–	(335)

8. Revenues

	Note	2004 RUB million	2003 RUB million
Revenues from sales of tyres		11,606	8,915
Revenues from sales of raw materials		1,838	1,625
Royalties related to sales of tyres		258	447
Other revenues		148	294
	5(b)	13,850	11,281

9. Administrative expenses

	2004 RUB million	2003 RUB million
Salaries and related expenses	(556)	(359)
Depreciation	(13)	(12)
Other	(403)	(159)
	(972)	(530)

10. Impairment losses and reversal of impairment losses, net

	2004 RUB million	2003 RUB million
Property, plant and equipment		
Rosava tyre plant	–	(574)
Krasnoyarsk rubber goods plant	–	(115)
Other sites	60	(60)
	60	(749)
Goodwill		
Krasnoyarsk rubber goods plant	–	(277)
Impairment losses and reversal of impairment, net	60	(1,026)

In 2003 the Group has revised its production plans as related to the operations of Rosava tyre plant and Krasnoyarsk rubber goods plant. Since the recoverable amounts of the related assets were lower than their carrying amounts, an impairment loss was recognised in respect of those assets in the statement of income for the year ended 31 December 2003.

The reversal of impairment losses in 2004 in the amount of RUB 60 million was recognised in respect of the Group's property, plant and equipment and relates to the operations of Volgograd black carbon plant and Kemerovo chemical fiber plant (also refer notes 15(c)).

11. Gains and losses related to acquisitions, restructuring and disposals of subsidiaries

	Note	2004 RUB million	2003 RUB million
Gain on derecognition of liabilities		–	761
Excess of the acquirer's share in net identifiable assets over the cost of acquisition	7(G)	–	517
Gain/(loss) on disposal of shares in subsidiaries	7(G)	63	(236)
		63	1,042

The reason for the excess of the acquirer's share in net identifiable assets over the cost of acquisition amounting to RUB 517 million in 2003 was the strong bargaining position of the Group in acquiring additional shares in subsidiaries from a diverse range of minority shareholders.

Gain on derecognition of liabilities arose in respect of the bankruptcy of ZAO Sibirskaya shina and OAO Krasnoyarsky zavod RTI, Group subsidiaries. As a result of this process, the companies' assets have been taken over by subsidiaries of the Group, and the liabilities of these companies have been extinguished–refer note 29(b).

12. Staff costs

The average number of employees during 2004 was 23,003 (2003: 24,488). Total staff costs for the year, including social contributions, amounted to RUB 2,356 million (2003: RUB 1,834 million). These costs are included in cost of sales, administrative and distribution expenses.

In addition to the above the Parent company issued shares to Mr. Alexei Gurin, its chief financial officer at that time who subsequently became director of the Group, and granted share appreciation rights to a number of the Group executive officers–refer Note 30(b).

13. Net financing expenses

	2004 RUB million	2003 RUB million
Interest expense	(691)	(241)
Loss on disposal of investments	(17)	–
Interest income	76	–
Foreign exchange gains/(losses)	1	(42)
	(631)	(283)

14. Income tax (expense)/benefit

	2004 RUB million	2003 RUB million
Current tax expense	(186)	(158)
Origination and reversal of temporary differences, including change in valuation allowance	188	293
Change in tax rate	–	57
Deferred tax benefit	188	350
Total income tax benefit	2	192

The applicable corporate income tax rates for the jurisdictions where the Group companies operated were as follows:

	2004		2003	
	Current tax %	Deferred tax %	Current tax %	Deferred tax %
The Netherlands	34.5	31.5	34.5	34.5
Russia	24.0	24.0	24.0	24.0
The Ukraine	25.0	25.0	30.0	30.0
Cyprus	4.25-10.0	4.25-10.0	4.25-10.0	4.25-10.0
British Virgin Islands	n/a	n/a	n/a	n/a

Reconciliation of effective tax rate:

	2004		2003	
	RUB million	%	RUB million	%
Loss before tax	(35)	(100)	(204)	(100)
Income tax benefit at applicable tax rate	12	35	70	35
Effect of lower rates in different jurisdictions	94	269	22	11
Change in tax rate	–	–	57	28
Change in valuation allowance for deferred tax asset	3	8	97	48
Non-deductible items, net	(107)	(306)	(54)	(28)
	2	(6)	192	94

15. Property, plant and equipment

	Note	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
				RUB million		
Cost						
At 1 January 2003		3,546	4,893	24	208	8,671
Additions		34	415	28	484	961
Disposals		–	(76)	(5)	–	(81)
Disposal of subsidiaries		(98)	(226)	(1)	(4)	(329)
Foreign exchange differences		(117)	(83)	(1)	–	(201)
At 1 January 2004		3,365	4,923	45	688	9,021
Acquisition of subsidiary		332	—	—	—	332
Additions	7(d)	31	1,635	42	608	2,316
Disposals		(3)	(55)	(4)	(4)	(66)
Disposal of subsidiaries	7(g)	(1,370)	(1,205)	(19)	(25)	(2,619)
Foreign exchange differences		(70)	(58)	(1)	–	(129)
At 31 December 2004		2,285	5,240	63	1,267	8,855

	Note	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
				RUB million		
Accumulated depreciation and impairment losses						
At 1 January 2003		–	–	–	–	–
Depreciation charge		(204)	(534)	(20)	–	(758)
Impairment losses		(501)	(248)	–	–	(749)
At 1 January 2004		(705)	(782)	(20)	–	(1,507)
Depreciation charge		(170)	(571)	(9)	–	(750)
Disposals		1	11	2	–	14
Disposal of subsidiaries	7(g)	578	438	16	–	1,032
Reversal of impairment losses	10	29	31	–	–	60
Foreign exchange differences		23	19	4	–	46
At 31 December 2004		(244)	(854)	(7)	–	(1,105)

	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
			RUB million		
Net book value at 1 January 2003	3,546	4,893	24	208	8,671
Net book value at 1 January 2004	2,660	4,141	25	688	7,514
Net book value at 31 December 2004	2,041	4,386	56	1,267	7,750

(a) Security
Refer note 23(b) for the value of property, plant and equipment securing obligations of the Group.

(b) Leased plant and machinery
The Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2004 the net book value of leased plant and machinery was RUB 1,141 million (2003: RUB 52 million; 2002: RUB 13 million). The leased obligations are secured over the leased equipment–refer note 23(b).

(c) Impairment loss and reversal
In 2004 the Group recognized reversal of impairment losses, which were recorded in 2003 in respect of Kemerovo chemical fiber plant and Volgograd black carbon plant – refer note 10. For the key assumptions underlying the impairment testing see note 16(b).

16. Intangible assets

	Note	Goodwill	Negative goodwill	Land lease right	Other	Total
			RUB million			
Cost						
At 1 January 2003		2,430	(193)	–	–	2,237
Early adoption of IFRS 3–write off of negative goodwill	3(a)	–	193	–	–	193
Goodwill acquired		269	–	–	–	269
Goodwill disposed off		(90)	–	–	–	(90)
Impairment of goodwill		(277)	–	–	–	(277)
At 1 January 2004		2,332	–	–	–	2,332
Additions, including assets of acquired subsidiaries	7(d)	–	–	67	6	73
At 31 December 2004		2,332	–	67	6	2,405

	Note	Goodwill	Negative goodwill	Land lease right	Other	Total
			RUB million			
Accumulated amortisation and impairment losses						
At 1 January 2003		–	–	–	–	–
At 1 January 2004		–	–	–	–	–
Amortisation charge for the year		–	–	–	(2)	(2)
At 31 December 2004		–	–	–	(2)	(2)

	Goodwill	Negative goodwill	Land lease right	Other	Total
		RUB million			
Net book value at 1 January 2003	2,430	(193)	–	–	2,237
Net book value at 1 January 2004	2,332	–	–	–	2,332
Net book value at 31 December 2004	2,332	–	67	4	2,403

(a) Goodwill

The balance of goodwill as of 31 December 2004 represents the excess of the cost of acquisition over the Group's interest in the fair value of the net identifiable assets acquired. For the purpose of the Acquisition Transaction (refer note 1(a)) the cost of the acquisition was determined by reference to the fair value of the acquired business, as determined by American Appraisal (AAR), Inc, an independent valuer. The residual value of the goodwill attributable to the Acquisition Transaction as of 31 December 2004 amounts to RUB 2,063 million.

The remainder of the goodwill amounting to RUB 269 million relates to the acquisition of minority interest of 25% in ZAO Shinny Komplex Amtel–Sibir' from related parties in 2003.

(b) Impairment

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units, being the production plants, namely Voronezh tyre plant, Kirov tyre plant, Krasnoyarsk tyre plant, Volgograd carbon black plant. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each cash generating unit are as follows:

	2004 RUB million	2003 RUB million	2002 RUB million
Voronezh tyre plant	857	857	857
Kirov tyre plant	714	714	714
Krasnoyarsk tyre plant	636	636	367
Krasnoyarsk rubber goods plant	–	–	277
Rosava tyre plant	–	–	90
Volgograd carbon black plant	125	125	125
	2,332	2,332	2,430

The recoverable amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the plants. The recoverable amounts were determined with the assistance of American Appraisal (AAR) Inc., independent valuers.

The following key assumptions were used in determining the recoverable amount of the plants:

➤ The cash flows projections were made for the average remaining useful lives of major production assets– refer note 3(e)(iv);

➤ The following tyre production volumes were anticipated (in million tyres):

	Prediction of production volumes as made in the financial statements for	
	2004	2003
Year 2004	n/a	7.5
Year 2005	12.1	8.5
Year 2006	12.6	9.6
Year 2007 and further	12.6	10.7

➤ A discount rate of 16% (2003: 16%) was applied in determining the recoverable amount of the plants;
➤ The values assigned to the key assumptions represent management's assessment of future trends in the tyre production industry and are based on both external sources and internal sources (historic data).

As a result of the impairment testing no impairment loss on goodwill was recognized in 2004 (2003: RUB 277 million).

17. Long-term financial assets

	2004 RUB million	2003 RUB million	2002 RUB million
Advances for property, plant and equipment	173	–	–
Investment in joint venture	39	50	–
Other long-term receivables from related parties	6	–	–
Other assets	12	2	24
	230	52	24

The investment in the joint venture represents 50% share in OOO Amtel-Nokian tyres, a joint venture with Nokian Tyres Plc. The Group's interest in the joint venture was accounted for using the equity method. In 2004 Amtel Holdings Holland N.V. and Nokian Tyres plc decided to cease operations of the joint venture.

18. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets			Liabilities			Net		
	2004	2003	2002	2004	2003 RUB million	2002	2004	2003	2002
Property, plant and equipment	46	83	127	(1,142)	(1,228)	(1,564)	(1,096)	(1,145)	(1,437)
Other long-term assets	160	10	10	(3)	(8)	–	157	2	10
Current assets	175	93	74	(26)	(42)	(14)	149	51	60
Liabilities	249	56	31	(58)	(33)	(27)	191	23	4
Valuation allowance	(88)	(91)	(188)	–	–	–	(88)	(91)	(188)
Tax assets/(liabilities)	542	151	54	(1,229)	(1,311)	(1,605)	(687)	(1,160)	(1,551)
Set off of tax	(474)	(87)	(52)	474	87	52	–	–	–
Net tax assets/(liabilities)	68	64	2	(755)	(1,224)	(1,553)	(687)	(1,160)	(1,551)

(b) Movement in temporary differences

	1 January	Effect of changes in foreign exchange rates	Recognised in income	Related to disposal of subsidiary RUB million	Recognised in equity	31 December
For the year 2004						
Property, plant and equipment	(1,145)	23	(221)	164	83	(1,096)
Other long-term assets	2	–	160	(5)	–	157
Current assets	51	–	18	80	–	149
Liabilities	23	–	228	(60)	–	191
Valuation allowance	(91)	–	3	–	–	(88)
Net tax assets/(liabilities)	(1,160)	23	188	179	83	(687)
For the year 2003						
Property, plant and equipment	(1,437)	41	251	–	–	(1,145)
Other long-term assets	10	–	(8)	–	–	2
Current assets	60	–	(9)	–	–	51
Liabilities	4	–	19	–	–	23
Valuation allowance	(188)	–	97	–	–	(91)
Net tax assets/(liabilities)	(1,551)	41	350	–	–	(1,160)

19. Inventories

	2004 RUB million	2003 RUB million	2002 RUB million
Raw materials	952	959	728
Work in progress	149	279	133
Finished goods	832	495	473
Provision for inventory obsolescence	(24)	(145)	(121)
	1,909	1,588	1,213

Refer note 23(b) for the value of inventory securing obligations of the Group.

20. Trade and other receivables

	2004 RUB million	2003 RUB million	2002 RUB million
Trade accounts receivable	775	1,026	799
VAT receivable	661	447	261
Receivables for shares in ZAO Rosava	396	335	–
Receivables from related parties	114	99	164
Receivable from the joint venture	–	53	–
Other taxes receivable	68	41	1
Other receivables	172	448	173
Provision for doubtful accounts	(62)	(180)	(123)
	2,124	2,269	1,275

Refer note 23(b) for the value of receivables securing obligations of the Group.

21. Cash and cash equivalents

	2004 RUB million	2003 RUB million	2002 RUB million
Cash in bank	153	323	344
Other cash balances	42	3	3
Cash and cash equivalents in the balance sheet	195	326	347
Bank overdrafts	–	(10)	(54)
Cash and cash equivalents in the statement of cash flows	195	316	293

22. Equity

In number of shares	Note	Ordinary shares	Preferred shares
Authorised shares at 31 December 2002		8,000	2,000
Par value (Euro)		10	10
Authorised shares at 31 December 2003		8,000	2,000
Par value (Euro)		10	10
Authorised shares at 31 December 2004		20,500,000	2,000,000
Par value (Euro)		0.01	0.01
On issue on 1 January 2003		2,001	–
Issued for cash–September 2003		–	80
On issue on 31 December 2003		2,001	80
On issue after split (1:1,000, EUR 0.01 par value)		2,001,000	80,000
Shares issued to Chief Executive Officer–February 2004	30(b)	40,000	–
Issued for cash–March 2004		–	40,000
Issue of additional shares	22(c)	2,209,116	129,884
Issued for cash–December 2004		128,571	–
On issue at 31 December 2004		4,378,687	249,884

(a) Ordinary shares
The holders of ordinary shares are entitled to one vote in the general meeting of shareholders for each share held.

All ordinary shareholders participate equally in the distribution of the assets, remaining after the payment of amounts due to creditors and preferred shareholders upon liquidation.

(b) Preferred shares
The holders of preferred shares are entitled to the number of votes equal to the number of whole shares of ordinary shares into which such preferred shares could be converted. The meeting of the holders of the preferred shares have to approve issues that influence the interests of preferred shareholders, including legal mergers, legal splits and amendments to the Articles of Association or dissolution of the Company.

In case of liquidation, the holders of the paid-up preferred shares are entitled to receive any cumulative unpaid dividends and the original issue share price of the preferred shares before any distributions to the holders of the ordinary shares.

The paid preferred shares give to their holders the right to require the issuer to redeem the shares after a particular date for a fixed amount. Consequently, this instrument meets the definition of a financial liability and was included in non-current loans – refer note 23.

(c) Issue of additional shares

(i) Year ended 31 December 2003
The Parent Company issued 80 preferred shares for cash consideration. The par value of shares is RUB 331.1 (EUR 10). The proceeds from issue amounted to approximately RUB 300 million.

(ii) Year ended 31 December 2004
Pursuant to the terms of a Share Award Agreement, between the Company and Alexei Gurin, its Chief executive officer, dated February 4, 2004, the Company issued to Mr, Gurin 40 ordinary shares (an equivalent of 40,000 after split–see below) as a reward and compensation for his services the Company and the Group. The shares are subject to certain restrictions as set forth in the Share Award Agreement and the Shareholders' Agreement.

In March 2004 Amtel Vredestein N.V. issued 40 preferred shares. The shares have been issued for cash. The par value of shares is RUB 331 (EUR 10). The proceeds from issue amounted to approximately RUB 143 million. As a result, total number of preferred shares issued became 120 shares.

Pursuant to amendment of the Articles of Association of the Parent Company as per 29 April 2004, the shares comprising the authorised share capital of EUR 100,000 were split such that the 8,000 ordinary shares having a par value of Euro 10 were divided into 8,000,000 ordinary shares having a par value of Euro 0.01 and the 2,000 preferred shares having a par value of Euro 10 were divided into 2,000,000 preferred shares having a par value of Euro 0.01, and, accordingly, the shares comprising the issued share capital were split such that the 2,041 issued ordinary shares were divided into 2,041,000 ordinary shares and 120 issued preferred shares were divided into 120,000 preferred shares.

In August 2004 additional shares were issued to all shareholders on a pro-rata basis so as to increase the number of shares to the minimum level required for the conversion of the Parent Company from private company with limited liability (Besloten Vennootschap) to a public limited liability company (Naamloze Vennootschap). The conversion ratio was 1:1.082.

In December 2004, the Parent Company issued 128,571 ordinary shares to an institutional investor. The proceeds from the issue amounted to RUB 277 million.

(d) Dividends
Holders of the ordinary shares are entitled to dividends upon the decision of the general shareholders' meeting if the net assets of the Company exceed the total value of the paid in capital and reserves, which have to be maintained by law and the Articles of Association. No dividends to ordinary shareholders were declared in year ended 31 December 2003 and 2004.

Holders of the cumulative convertible preferred shares are entitled to an annual cumulative dividend of 8% per annum of the original issue price.

Dividends on cumulative convertible preferred shares for the years ended 31 December 2003 and 2004 amounting to RUB 6 million and RUB 28 million, respectively, were recognised as interest expense.

(e) Transactions with the controlling shareholder
During the year 2003 and 2004 the Group's controlling shareholder withdrew a series of amounts from the Group amounting to approximately RUB 461 million and RUB 209 million, respectively, and made a series of contributions to the Group during year ended 31 December 2004 in total of RUB 209 million. All transactions comprised monetary assets, and are considered by management and the shareholder to be a net dividend of zero. Accordingly, all movements have been recognized in retained earnings. As of 31 December 2004, an amount of RUB 64 million in respect of these transactions is owing to the shareholder (2003: RUB 150 million).

23. Loans and borrowings

		2004 RUB million	2003 RUB million	2002 RUB million
Non-current				
Unsecured bond issue		1,190	1,518	304
Secured bank loans		380	424	4
Convertible cumulative preferred shares	22(b)	449	300	–
		2,019	2,242	308
Current				
Current portion of secured bank loans		1,594	521	329
Unsecured bank loans		605	–	–
Unsecured bond issue		600	529	–
Unsecured loans from related parties		14	291	–
Unsecured government loans		–	–	168
Secured bank facility		–	–	4
		2,813	1,341	501

For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

(a) Terms and debt repayment schedule

	As of 31 December 2004		
	Total	Under 1 Year RUB million	1-5 Years
Secured bank loans:			
RUB–fixed at 5-15%	1,627	1,493	134
USD–fixed at 5-10%	100	29	71
EURO–fixed at 10-15%	247	72	175
Unsecured bank loans			
RUB–fixed 10-20%	605	605	–
Unsecured bond issues:			
Bonds 2005–fixed at 19%	600	600	–
Bonds 2007–fixed at 12.5%	1,190	–	1,190
Unsecured short-term loans from related parties:			
RUB–interest free	14	14	–
Unsecured convertible cumulative preferred shares:			
USD–fixed at 8%	449	–	449
	4,832	2,813	2,019

	As of 31 December 2003		
	Total	Under 1 Year RUB million	1-5 Years
Secured bank loans			
RUB–fixed at 5-15%	74	4	–
RUB–fixed at 15-20%	481	481	70
USD–variable, 7.3-7.9%	123	–	123
EUR–variable, 8.0-8.4%	231	–	231
UHr–fixed at 15-20%	36	36	–
Unsecured bank loans			
RUB–fixed 10-20%	475	475	–
UHr–fixed 18%	54	54	–
Unsecured bond			
Maturing in 2005–fixed at 19%	600	–	600
Maturing in 2007–fixed at 16%	918	–	918
Unsecured short-term loans from related parties			
RUB–interest free	11	11	–
RUB–fixed 10%	11	11	–
USD–fixed 13%	269	269	–
Preferred shares			
USD–fixed at 8%–convertible, cumulative, redeemable	300	–	300
	3,583	1,341	2,242

	As of 31 December 2002		
	Total	Under 1 Year	1-5 Years
Secured bank loans:			
RUB–fixed at 15-20%	35	35	–
RUB–fixed at 20-25%	95	95	–
RUB–fixed at 25%	14	14	–
US$–fixed at 10-15%	45	45	–
US$–fixed at 15-20%	48	48	–
UHr–fixed at 4%	4	–	4
UHr–fixed at 15-20%	1	1	–
UHr–fixed at 20-25%	15	15	–
UHr–fixed at 25-40%	76	76	–
Unsecured RUB bonds:			
Maturity 2005, fixed at 19%	304	–	304
Secured bank facility:			
RUB–fixed at 20%	4	4	–
Unsecured government loans:			
RUB–fixed at 13%	1	1	–
Euro–fixed at 5.25%	167	167	–
	809	501	308

(b) Security

The following assets are pledged to secure the bank loans (at carrying amounts):

	Note	2004 RUB million	2003 RUB million	2002 RUB million
Owned property, plant and equipment	15(a)	2,189	918	398
Leased property, plant and equipment	15(b)	1,141	52	13
Inventories and other current assets	19	461	291	278
Accounts receivables	20	350	–	–

The Group also pledged its shares in OAO Shinny Komplex Amtel-Chernozemye, subsidiary.

24. Finance lease liabilities

Finance lease liabilities are payable as follows:

	On 31 December 2004			On 31 December 2003			On 31 December 2002		
	Payments	Interest	Principal	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	281	148	133	8	2	6	–	–	–
Between one and five years	1,005	359	646	29	4	25	11	–	11
More than five years	194	18	176	11	1	10	–	–	–
	1,199	377	822	40	5	35	11	–	11
	1,480	525	955	48	7	41	11	–	11

During the year ended 31 December 2002, 2003 and 2004, the interest rates implicit in the leases amounted to 2%, 10% and varied from 10 to 18% per annum, respectively.

25. Trade and other payables

	2004 RUB million	2003 RUB million	2002 RUB million
Trade accounts payable	738	1,215	1,137
Taxes payable other than VAT	215	200	354
VAT payable	200	89	194
Payables to related parties other than controlling shareholder and joint venture	141	103	453
Current portion of finance lease liability	133	6	–
Payables to controlling shareholder	64	150	–
Payables to the joint venture	51	101	–
Other payables	243	145	620
	1,785	2,009	2,758

26. Basic and diluted earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares (refer note 22) outstanding during the year, calculated as shown below. The Group has no dilutive potential ordinary shares.

Shares	2004	2003
Issued ordinary shares at 1 January	4,166,821	4,166,821
Effect of share award–February	76,354	–
Effect of shares issued for cash–December	10,714	–
Weighted average number of ordinary shares at 31 December	4,253,889	4,166,821

Cumulative convertible preference shares had antidilutive effect, consequently, dilutive earnings per share equalled to basic earnings per share.

The above computation of the weighted average number of shares include the effect of share split and bonus issue – refer note 22.

27. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk
Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of entering into new loans and borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(c) Foreign currency risk
The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Russian Rouble. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values
Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

Management has concluded that due to the lack of liquidity and published ''indicator interest rates'' in the Russian market, and the fact that certain transactions with related parties are of a specialised nature, it is not practicable to determine fair values of the related parties financial instruments detailed in note 30.

The estimated fair values of third party financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in note 1(d), the Russian Federation and the Ukraine have shown signs of emerging markets. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using current interest rates for similar instruments.

The fair values of the third parties financial instruments as of 31 December 2002, 2003 and 2004 were not significantly different from their carrying values.

28. Commitments
As at 31 December 2003 and 2004, the Group has entered into a contract to purchase plant and equipment for RUB 429 million and 268 million, respectively. As at 31 December 2002, the Group had no significant commitments.

29. Contingencies

(a) Insurance
The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has insured a significant part of the Group's production facilities, including Voronezh tyre plant, Kirov tyre plant, Krasoyarsk tyre plant, Kemerovo Chemical Fiber plant, and Volgograd carbon black plant against damage arising from accidents or fire. The insurer, however, will not reimburse the Group for business interruption or any environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Bankruptcy law
The bankruptcy law in Russia is relatively new, often unclear and subject to interpretation. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders, even after all bankruptcy procedures have been completed.

A significant part of the assets of Amtel Group were acquired as a result of bankruptcy procedures. Should the former legal owners of these assets or their shareholders challenge the process by which the Group acquired such assets, such transactions may be declared invalid and fines levied on the Group. The effect of such potential challenge could be significant, and materially impact the financial position of the Group. However, the risk of economic benefit outflow as a result of the above is considered less than probable.

(c) Corporate law
As disclosed in note 7(a), the Group sold 15% of its shares in OAO Shinny Komplex Amtel-Povolzhye (formerly, OAO Kirov tyre plant) to a related party.

During 2004 and 2005, transactions in OAO Shinny Komplex Amtel-Povolzhye were made whereby the company issued guarantees and pledges for other companies of the Amtel Group for the amount of approximately RUB 7,500 million. Russian legislation requires that such transactions be approved by minority shareholders at a shareholders' meeting. In such voting, the majority shareholder and its ''affiliated entities'' (as defined in Russian law) are by law excluded from voting. Management believes that the acquiring party is not an affiliated entity under Russian law and therefore that the risk of these transactions being challenged, and the likelihood of success by any such challenger, is remote.

In the event that a challenge were successful, finance lease non-current liabilities of RUB 646 million could become repayable on demand. In such circumstance the Group may be forced to negotiate new terms of repayment with the lender, or to forfeit the leased assets–refer note 15(b).

In 2005, the Group, exercised its option and repurchased the shares from the related party refer note 33(c).

(d) Taxation contingencies
The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation and the Ukraine that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Ukrainian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In particular, a number of companies of the Amtel Group used special purpose entities (''SPEs''), mainly in periods before 31 December 2002, in which they did not hold any direct or indirect equity interest, for tax and customs minimisation purposes. The methods used by the SPE's to reduce taxation are not fully compliant with the Russian and the Ukrainian tax legislation. Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs; however, the management of the companies of the Amtel Group may also be held responsible indirectly.

Based on the facts available, the risk of significant economic benefit outflow as a result of potential claims for additional tax, customs and other liabilities being ultimately imposed on the SPEs or the Group is less than probable. However, the SPEs' lack of full compliance with applicable Russian and the 2,Ukrainian tax legislation could result in such tax, customs and other liabilities (and related penalties and interest), which could materially impact the Group's consolidated financial statements.

30. Related party transactions

(a) Control relationships
The Company's Parent Company is Amtel Luxembourg S.A., which is the ultimate holding company.

Related parties comprise the controlling shareholder of the Parent Company and all other companies in which the shareholder has a controlling interest or significant influence. Transactions with key management personnel and entities, that are controlled, jointly controlled or significantly influenced by individuals mentioned, were recognized and disclosed as related party transactions as well.

(b) Share award and share appreciation rights
Pursuant to the terms of a Share Award Agreement, between the Company and Alexei Gurin, its Chief Financial Officer at that date, dated 4 February 2004, the Company issued 40 ordinary shares (an equivalent of 40,000 after the split and 83,200 after bonus issue – refer note 22), to Mr. Gurin as a reward and compensation for his

services to the Company and the Group. The shares vested immediately. On the date of issue, the fair value of the shares was estimated at approximately RUB 151 million. In accordance with the Group's accounting policies for such transactions, no expense has been recognised in these financial statements.

IFRS 2 Share-based payment applicable to the financial statements starting 1 January 2005 requires such awards to be recognized as part of staff costs in the statement of income. Should IFRS 2 have been adopted on 1 January 2003, the staff costs for the year ended 31 December 2004 would amount to RUB 2,507 million and the net result for that year would be 22 million loss.

In December 2004 the Company decided to grant to certain members of the management the right to acquire up to 10% of all of the issued shares of the Company at a favourable price or to receive an equivalent cash alternative. The share appreciation rights are exercisable if management meets certain individual targets (including achievement of a market capitalisation of RUB 20,811 million by the Group and certain individual targets specific for each employee) and expire in 10 years after the grant date. The aggregate fair value of shares at the grant date to be issued under this share appreciation rights agreement is restricted to a maximum of RUB 139 million.

In accordance with the decision, the Company issued share appreciation rights with cash alternative for 1% of the Company's shares in 2004. The rights vest in 4 instalments with 63% vesting on the first anniversary after the grant date and the remaining 38% in three equal instalments on the second to fourth anniversary after the grant date. The fair value of the share appreciation rights at the balance sheet date was negligible.

(c) Transactions with related parties

The Group performed the following transactions with related parties:

	2004 RUB million	2003 RUB million
Sales to related parties	150	188
Purchases of goods	287	175
Rent expenses incurred	52	10
Consideration paid to related parties for minority shares in subsidiaries	33	378
Acquisition of property, plant and equipment	496	–
Acquisitions of intangible assets	67	–
Loans received from related parties	14	291
Repayment of loans to related parties	(291)	–

Included in the above transactions is the acquisition of shares in OOO Amtel–Logistics Center which was accounted for as acquisition of property, plant and equipment and intangible assets – refer note 7(d).

In addition, the transactions to acquire or sell shares disclosed in notes 7(a)0 and 7(f)(i), were with related parties.

(d) Balances with related parties

The Group companies recorded the following balances with related parties:

	2004 RUB million	2003 RUB million	2002 RUB million
Short-term interest free loans issued to related parties	99	–	–
Trade and other receivables	120	100	164
Payables to related parties other than controlling shareholder	192	103	453
Unsecured short-term loans	14	291	–
Payables to controlling shareholder	64	150	113

(e) Transactions related to ZAO Rosava

During 2004 76% in ZAO Rosava was legally owned by the Acquirer–refer note 4. In addition to transactions disclosed in note 4, the Group had the following transactions with companies controlled by the Acquirer:

	Note	2004 RUB million
Loans received		2,930
Loans paid		(2,803)
Interest expense recognised		64
Receivables for shares in ZAO Rosava	20	396

(f) Pricing policy

Prices for transactions with the related parties are determined as agreed between the parties.

31. Significant subsidiaries

	Note	Country of incorporation	Effective ownership interest on 31 December 2004 %	Effective ownership interest on 31 December 2003 %	Effective ownership interest on 31 December 2002 %
Holding companies					
Amtel Exports PTE Limited		Cyprus	100	100	100
Astley Holding Limited	7(f)	Cyprus	–	100	100
Conpacin (S) PTE Limited			–	100	100
Geroc Holdings Limited	7(f)	Cyprus	–	100	100
Soparvi Holdings Limited	7(f)	Cyprus	–	100	100
Vorsella Holdings Limited	7(f)	Cyprus	–	100	100
Tapistron Limited		Cyprus	100	100	100
ZAO Amtel-Vredestein, (formerly, OOO Kholdingovaya Kompaniya Amtel)		Russia	100	100	100
Production companies					
Krasnoyarsk tyre plant					
OOO Krasnoyarsky Shinny Zavod	7(f)	Russia	–	100	100
ZAO Shinny Komplex Amtel-Sibir		Russia	100	100	75
ZAO Krasny Yar-Shina		Russia	100	100	75
ZAO Sibirskaya Shina	29(b)	Russia	100	100	50
ZAO Sibirskaya Shina			–	–	49
OOO PO Krasnoyarsky Shinny Zavod (formerly OOO TD Krasnoyarsky Shinny Zavod)		Russia	100	100	49
OOO Krasshina Invest		Russia	100	100	49
OAO Supershina	7(f)	Russia	–	100	40
Krasnoyarsk rubber goods plant					
OOO TD Amtel-Elast		Russia	100	100	100
OAO Krasnoyarsky Zavod RTI	7(f)(i)	Russia	–	51	51
OOO TD Sibelast	7(f)(i)	Russia	–	51	51
Rosava tyre plant					
ZAO Rosava (formerly, ZAO SP Rosava)	4, 6	The Ukraine	–	–	51
Voronezh tyre plant					
OOO Amtel Chernozemye		Russia	100	100	94
OAO Shinny Komplex Amtel Chernozemye		Russia	100	100	76
Kirov tyre plant					
OOO TD Kirovsky Shinny Zavod	7(e)(i) 7(a)	Russia	86	86	–
OOO Vyatskaya Shina	7(b)(i)	Russia	86	73	65
OAO Shinny Komplex Amtel Povolzhye (formerly OAO Kirovsky Shinny Zavod)		Russia	86	86	56

	Note	Country of incorporation	Effective ownership interest on 31 December 2004 %	Effective ownership interest on 31 December 2003 %	Effective ownership interest on 31 December 2002 %
Volgograd carbon black plant					
OOO Amtel-Carbon		Russia	100	100	–
OOO Volgogradsky Zavod Ttekhugleroda		Russia	100	100	100
OOO Volgokhimpererabotka		Russia	100	100	100
OOO Carbon-Trading	7(f)	Russia	–	100	100
OOO Carbon			–	100	100
OOO Volgogradsky Tekhuglerod	7(f)	Russia	–	100	100
OAO PO Tekhuglerod			–	56	56
OAO Volgogradsky zavod tekhnicheskogo ugleroda			–	51	51
Kemerovo Chemical Fiber Plant					
OAO Khimvolokno Amtel-Kuzbass		Russia	100	100	100
OOO Khimvolokno Amtel-Kuzbass		Russia	100	100	100
Chernigov Chemical Fiber Plant					
OAO Chernigov Khimvolokno Amtel			–	6	4
Major trading companies					
OOO Amtelshintorg		Russia	100	100	100
OOO Amtel-shina Kuzbass		Russia	100	100	100
OOO Amtelshinprom	7(a)	Russia	100	93	87
OOO Amtelshinprom-Chernozemye	7(a)	Russia	100	100	–
OOO Amtelshinprom-Krasnoyarsk	7(a)	Russia	100	100	–
OOO Amtelshinprom-Severo-Zapad	7(a)	Russia	100	100	–
OOO Amtelshinprom-Sibir	7(a)	Russia	100	100	–
OOO Amtelshinprom-Yug	7(a)	Russia	100	100	–
OOO Amtelshinrpom-Povolzhye (newly formed)		Russia	100	–	–
OOO Amtelshintorg-Ug		Russia	100	100	95
OOO Ukrshinsnab			–	100	100
OOO Snabshinpostavka			–	–	100
OOO Amtelnefteckhim			–	–	100
Other companies					
Melina Investments		BVI	100	100	–
OOO Amtel–Logistics Center	7(d)	Russia	100	–	–

32. Earnings before interest, tax, depreciation and amortisation

	Note	2004 RUB million	2003 RUB million
Net profit for the year		129	256
Adjustments:			
Interest expense	13	691	241
Interest income	13	(76)	–
Income tax benefit	14	(2)	(192)
Taxes other than on profits		78	112
Amortisation and depreciation expense	15, 16	752	758
		1,572	1,175

33. Subsequent events

(a) Share issue

In February 2005 Citicorp International Finance Corporation acquired 64,286 newly issued ordinary shares in the Parent Company (an equivalent of 428,573 after right issue exercised–see 33(e)), which comprises 1.4% of the issued ordinary share capital. The proceeds from the issue amounted to approximately RUB 140 million.

(b) Acquisition of minority shares in OAO Shinny Komplex Amtel-Povolzhye

In February 2005, the Group acquired approximately 4% of the ordinary shares in OAO Shinny Komplex Amtel-Povolzhye for a consideration of RUB 54 million. As a result the effective shareholding in OAO Shinny Komplex Amtel-Povolzhye increased from 86% to 90%.

(c) Acquisition of 15% shares in OAO Shinny Komplex Amtel-Povolzhye

Subsequent to the year ended 31 December 2004, the Group exercised its option to purchase 15% of shares in OAO Shinny Komplex Amtel-Povolzhye–refer notes 7(a) and 29(c).

(d) Acquisition of Vredestein Banden B.V.

In April 2005 the Parent Company acquired 100% shares in Vredestein Banden B.V. (''Vredestein''), a Dutch tyre manufacturer. The cost of acquisition, including repayment of debt, was approximately RUB 7,235 million and included consideration paid to the previous shareholders of RUB 7,077 million and costs directly attributable to the combination of RUB 158 million.

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and contingent liabilities were performed with the assistance of an independent appraiser. The Group plans to finalize the allocation of the purchase consideration over the acquiree's identifiable assets, liabilities and contingent liabilities prior to finalizing the 2005 annual financial statements.

The effect of the acquisition on the Group's assets and liabilities was as follows:

Determined on a provisional basis	RUB million
Property, plant and equipment	4,337
Identifiable intangible assets	992
Other non-current assets	193
Current assets	3,833
Non-current liabilities	(2,035)
:Current liabilities	(3,121)
Net assets at the date of acquisition	4,199
Goodwill on acquisition	3,036
Consideration paid in cash	7,235

Vredestein did not prepare its finance statements in accordance with IFRSs prior to the acquisition date. Consequently it was not practicable to determine the carrying amounts of each of those classes of assets and liabilities in accordance with IFRSs immediately before the acquisition.

The acquisition was financed with bank loans. Approximately RUB 4,162 million of the loans were secured with 51% of shares in the Parent Company. Subsequently, the security was released pursuant to the issue of credit linked notes in June 2005 – refer note 33(e). The remaining part of the loans was secured in the acquired company.

(e) Share issue to existing shareholders

In April 2005 the Parent Company issued 39,986,757 ordinary and 2,248,956 preferred shares to existing shareholders for no consideration. The par value of the shares issued is EUR 0.01.

(f) Issue of credit linked notes

In June 2005 the Group issued US dollar denominated credit linked notes for approximately RUB 4,937 million. The credit linked notes are repayable in June 2007 and have an interest rate of 9.25% per annum.

(g) Private placement to institutional investors
In June 2005 the Parent Company issued ordinary shares representing approximately 12% of the share capital outstanding at the date of issue. The proceeds from the issue amounted to approximately RUB 2,003 million.

(h) Issue of share appreciation rights
In 2005 the Company issued share appreciation rights with a cash alternative for approximately 3% of the Company's shares to certain members of management. In addition, the Company issued share options representing 0.29% to certain members of the management.

(i) Disposal of subsidiaries
Subsequent to the balance sheet date the Group disposed of 100% of its shares in the following subsidiaries: OOO Amtelshinprom–Chernozemye, OOO Amtelshinprom–Krasnoyarsk, OOO Amtelshinprom–Severo-Zapad, OOO Amtelshinprom–Sibir, OOO Amtelshinprom–Yug, OOO Amtelshinrpom–Povolzhye. The proceeds from the disposal amounted to RUB 147 million.

In addition, the Group sold its interest in OOO Krasshina-Invest and OOO Amtelshintorg to related parties.

(j) Restructuring
In July 2005 management announced that it would cease production of passenger car tyres in Krasnoyarsk and truck tyres in Voronezh. This decision may affect the recoverable amounts of property, plant and equipment and goodwill in future periods.

In addition, management announced that it would substantially reduce the number of employees in Voronezh and Krasnoyarsk. This decision may result in a restructuring provision being recognized in future periods.

The management has not yet developed and announced a detailed restructuring plan. Consequently the amount of restructuring provisions, and the amount of adjustment to the carrying amount of property, plant and equipment and goodwill, if any, cannot be measured reliably as of 31 December 2004.

(k) Merger
In July 2005, Amtel B.V., Vredestein Banden B.V. and Twekkeler Es Beheer B.V. combined to form one legal entity.

(l) Acquisition of tyre distribution business
In September 2005 the Group announced that it intends to acquire two retail businesses specializing in sales of tyres and other car related accessories and services in Moscow and Moscow region, Russia. As of the date of issue of these financial statements the transaction has not been finalized.

(m) Name change
In October 2005 Amtel Holdings Holland N.V. changed its name to Amtel–Vredestein N.V.

(n) Conversion of shares
In October 2005 all preferred shares of the Parent Company were converted to ordinary shares.

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Reconciliation between IFRS Financial Statements and Statutory Financial Statements Prepared under Dutch GAAP, for Net Results and Shareholders' Equity

Reconciliation between IFRS Financial Statements and Statutory Financial Statements Prepared under Dutch GAAP, for Net Results and Shareholders' Equity

	2004 RUB million	2003 RUB million
Net result, Dutch GAAP financial statements	167	377
IFRS adjustments	(38)	(121)
Net profit, IFRS financial statements	129	256
Shareholders' equity, Dutch GAAP financial statements	6,279	6,363
IFRS adjustments	—	(486)
Shareholders' equity, IFRS financial statements	6,279	5,877

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)

Interim Consolidated Condensed
Financial Information
for the six-month period ended 30 June 2005

Contents

INDEPENDENT REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

Management Board
Amtel-Vredestein N.V.
(formerly Amtel Holdings Holland N.V.)

We have reviewed the accompanying consolidated condensed balance sheet of Amtel-Vredestein N.V. (formerly Amtel Holdings Holland N.V.) and its subsidiaries (the ''Group'') as of 30 June 2005, and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended (the ''interim financial information''). This consolidated interim financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Without qualifying our review conclusion, we draw attention to the fact that we have not reviewed the US dollar amounts in the accompanying consolidated interim financial information, which has been presented solely for the convenience of users as described in note 2(d) to the consolidated interim financial information.

KPMG Limited

KPMG Limited
10 October 2005

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)
Interim consolidated condensed statement of income for the six-month period ended 30 June 2005

	Note	Six-month period ended 30 June			
		2005	2004 Restated**	2005	2004 Restated**
		In million RUR		In million USD*	
Revenues	5	7,990	6,382	278	223
Cost of sales, excluding depreciation		(5,920)	(4,730)	(207)	(165)
Gross profit before depreciation		2,070	1,652	71	58
Depreciation charge relating to cost of sales		(495)	(365)	(17)	(13)
Gross profit		1,575	1,287	54	45
Other income and expenses, net	6	(1,077)	(931)	(37)	(32)
Profit from operations		498	356	17	13
Net financing expense	8	(402)	(251)	(14)	(9)
Profit before taxation		96	105	3	4
Income tax	9	(71)	(79)	(2)	(3)
Net profit		25	26	1	1
Attributable to:					
Loss attributable to minority holders		(1)	(65)	–	(2)
Profit attributable to equity holders of the Parent		26	91	1	3
		25	26	1	1
Basic and diluted earnings per share, RUR/USD	19	0.6	2.2	–	–

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information–refer note 2(d)*

** *Arising from change in accounting standard–refer note 2(e)*

The interim consolidated condensed statement of income is to be read in conjunction with the notes to and forming part of the interim consolidated condensed financial information set out on pages 8 to 25(*).

The interim consolidated condensed financial information was approved on 10 October 2005:

Alexei Gurin
Chief Executive Officer

Victor Nekrassov
Chief Financial Officer

(*) *The reference to pages 8 to 25 relates to pages F-48 to F-63 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)
Interim consolidated condensed balance sheet as at 30 June 2005

	30 June 2005	31 December 2004 Restated**	30 June 2005	31 December 2004 Restated**
	In million RUR		In million USD*	
ASSETS				
Non-current assets	18,662	10,451	651	364
Current assets	14,054	4,324	490	151
Total assets	32,716	14,775	1,141	515
EQUITY AND LIABILITIES				
Equity	8,518	6,581	297	228
Non-current liabilities	15,641	3,596	546	125
Current liabilities	8,557	4,598	298	162
Total equity and liabilities	32,716	14,775	1,141	515

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information–refer note 2(d)*

** *Arising from change in accounting standard–refer note 2(e)*

The interim consolidated condensed balance sheet is to be read in conjunction with the notes to and forming part of the interim consolidated condensed financial information set out on pages 8 to 25(*).

(*) *The reference to pages 8 to 25 relates to pages F-48 to F-63 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)
Interim consolidated condensed statement of cash flows for the six-month period ended 30 June 2005

	Six-month period ended 30 June			
	2005	**2004**	**2005**	**2004**
	In million RUR		**In million USD***	
Profit attributable to equity holders of the Parent	26	91	1	3
Adjustments for non-cash items	1,182	726	41	25
Operating profit before changes in working capital	1,208	817	42	28
Changes in working capital	(2,685)	(621)	(94)	(21)
Cash flows from/(used in) operations before income taxes	(1,477)	196	(52)	7
Income tax paid	(337)	(280)	(12)	(10)
Cash flows used in operating activities	(1,814)	(84)	(64)	(3)
Cash flows used in investing activities	(7,953)	(991)	(277)	(34)
Cash flows from financing activities	12,916	814	450	28
Net increase/(decrease) in cash and cash equivalents	3,149	(261)	109	(9)
Cash and cash equivalents at beginning of the period	195	316	7	11
Cash and cash equivalents at end of the period	3,344	55	116	2

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information–refer note 2(d)*

The interim consolidated condensed statement of cash flows is to be read in conjunction with the notes to and forming part of the interim consolidated condensed financial information set out on pages 8 to 25(*).

(*) *The reference to pages 8 to 25 relates to pages F-48 to F-63 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)

Interim consolidated statement of changes in equity for the six-month period ended 30 June 2005

Restated**	Note	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
		Attributable to shareholders of the Parent Company						
In million RUR								
Balance at 1 January 2004		1	5,888	–	(12)	5,877	1,562	7,439
Profit/(loss) for the period		–	–	–	91	91	(65)	26
Foreign currency translation difference		–	–	5	–	5	57	62
Effect of disposal of minority interests in subsidiaries		–	–	–	–	–	12	12
Withdrawals by the Controlling Shareholder	15(d)	–	–	–	(83)	(83)	–	(83)
Balance at 30 June 2004		1	5,888	5	(4)	5,890	1,566	7,456
Balance at 1 January 2005		2	6,160	–	117	6,279	302	6,581
Issue of shares to existing shareholders	15(b)	15	(15)	–	–	–	–	–
Issue of shares to new shareholders	15(b)	2	2,146	–	–	2,148	–	2,148
Profit/(loss) for the period		–	–	–	26	26	(1)	25
Foreign currency translation difference		–	–	(140)	–	(140)	–	(140)
Effect of acquisition of minority interest in subsidiaries		–	–	–	–	–	(83)	(83)
Contributions from the Controlling Shareholder	15(d)	–	–	–	15	15	–	15
Withdrawals by the Controlling Shareholder	15(d)	–	–	–	(28)	(28)	–	(28)
Balance at 30 June 2005		19	8,291	(140)	130	8,300	218	8,518
In million USD*								
Balance at 1 January 2004		–	204	–	–	204	54	258
Profit/(loss) for the period		–	–	–	3	3	(2)	1
Foreign currency translation difference		–	–	–	–	–	2	2
Effect of disposal of minority interests in subsidiaries		–	–	–	–	–	–	–
Withdrawals by the Controlling Shareholder	15(d)	–	–	–	(3)	(3)	–	(3)
Balance at 30 June 2004		–	204	–	–	204	54	258
Balance at 1 January 2005		–	213	–	4	217	11	228
Issue of shares to existing shareholders	15(b)	1	(1)	–	–	–	–	–
Issue of shares to new shareholders	15(b)	–	75	–	–	75	–	75
Profit/(loss) for the period		–	–	–	1	1	–	1
Foreign currency translation difference		–	–	(4)	–	(4)	–	(4)
Effect of acquisition of minority interest in subsidiaries		–	–	–	–	–	(3)	(3)
Contributions from the Controlling Shareholder	15(d)	–	–	–	1	1	–	1
Withdrawals by the Controlling Shareholder	15(d)	–	–	–	(1)	(1)	–	(1)
Balance at 30 June 2005		1	287	(4)	5	289	8	297

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information–refer note 2(d)*

** *Arising from change in accounting standard–refer note 2(e)*

The interim consolidated condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the interim consolidated condensed financial information set out on pages 8 to 25(*).

(*) *The reference to pages 8 to 25 relates to pages F-48 to F-63 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly, Amtel Holdings Holland N.V.)
Selected explanatory notes to the interim consolidated condensed financial information for the six-month period ended 30 June 2005

1 Background

(a) Organisation

Amtel-Vredestein N.V. (formerly, Amtel Holdings Holland N.V.), further referred as ''the Parent Company'', ''the Company'' was incorporated by Amtel Luxemburg S.A. as a private company with limited liability (Besloten Vennootschap) on 30 July 2002 in accordance with the Civil Law of the Netherlands. In August 2004 the Company was reorganised into a public limited liability company (Naamloze Vennootschap). The Company has been operating under the laws of the Netherlands, with its registered office at Herengracht 469, 1017 BS Amsterdam, the Netherlands.

This interim consolidated condensed financial information comprises the Parent Company and its subsidiaries (further referred to as ''the Group'' or ''Amtel Group''). The list of significant subsidiaries is disclosed in note 23.

(b) Operations

The Group operates in the tyre manufacturing and distribution business. The Group includes a number of tyre production facilities located in Russia and in the Netherlands. The Group's operations in the Netherlands are the result of the acquisition of Vredestein Banden B.V. in April 2005–refer note 4(a). The plants produce a wide range of tyres for a variety of vehicles, including passenger cars, trucks, aircraft, agricultural and military vehicles and bicycles. The Group companies also include facilities for the production of chemical fibers, cords and black carbon, which provide raw materials in the production of tyres. The products of the Group are distributed in Russia, the Netherlands and other countries.

(c) Related party transactions

The Group is ultimately controlled by a single individual, Mr. Sudhir Gupta (further referred to as the ''Controlling Shareholder''), who has the power to direct the transactions of the Group at his discretion and for his own benefit. He also has a number of other business interests outside of the Group. Consequently there are a number of related party transactions–refer notes 4(b), 4(c), 21, 25(b)–many involving the Group's interests in subsidiaries.

(d) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of the enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The accompanying interim consolidated condensed financial information reflects management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

This interim consolidated condensed financial information has been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

This interim consolidated condensed financial information has been prepared on a condensed basis, and therefore should be read in conjunction with the consolidated financial statements as of and for the year ended 31 December 2004, as this financial information provides only an update of previously reported financial information.

All accounting policies described in the consolidated financial statements as of and for the year ended 31 December 2004 have been consistently applied in preparing this interim consolidated condensed financial information except as described in note 2(e).

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information – refer note 2(d)*

(b) Basis of measurement
The interim consolidated condensed financial information is prepared on the historical cost basis.

(c) Functional and presentation currency
The national currency of the Russian Federation is the Russian Rouble (''RUR''), which is the Parent Company's functional currency and the currency in which this interim consolidated condensed financial information is presented. All financial information presented in RUR has been rounded to the nearest million.

(d) Convenience translation
The Parent Company's functional currency is RUR because it reflects the economic substance of the underlying events and circumstances of the company. In addition to presenting the interim consolidated condensed financial information in RUR, supplementary information in USD has been prepared for the convenience of users of this financial information.

All amounts presented in USD have been translated from the RUR amounts at the Central Bank of the Russian Federation exchange rate of 28.6721 RUR to one USD at the close of business on 30 June 2005. All financial information presented in USD has been rounded to the nearest million.

(e) Changes in accounting policy
As of 1 January 2005, the Amtel Group adopted all of the new and revised Standards and interpretations adopted by the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

Significant changes in accounting policies as they relate to the Amtel Group's financial position, results of its operations and its cash flows, as presented in these interim consolidated condensed financial information, are summarised as follows:

Application of IAS 1 *Presentation of Financial Statements* (revised 2003) has affected the presentation of minority interest, and has resulted in increased disclosures, including disclosure of critical accounting estimates and judgments in applying accounting policies.

Application of IFRS 2 *Share-based payment* has resulted in the assessment of the terms of the share options issued to the senior management for the purposes of recognition in the financial statements. The assessment indicated that the grant date in respect of the share options had not been reached by 30 June 2005. Consequently, application of the standard did not effect this financial information.

There was no impact on opening retained earnings as at 1 January 2005 from the adoption of any of the above-mentioned standards, except for the following resulting from revised IAS 1:

➤ In the income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit or loss for the period. Instead it is presented as an allocation of the Group's net profit loss for the period;

➤ In the balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period;

Comparatives were restated to reflect these changes.

(f) Critical accounting estimates and judgments in applying accounting policies
Amtel Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including the expected outcome of past events that are believed to be reasonable under the circumstances.

(i) Impairment of goodwill and intangible assets
Amtel reviews goodwill and other identifiable intangible assets with indefinite useful lives to assess impairment on an annual basis. The goodwill acquired before 31 December 2004 was last tested when the Group prepared its annual financial statements as of and for the year ended 31 December 2004. Management assessed

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whether there were indicators as of 30 June 2005 that the goodwill might be impaired and concluded that no indicators existed.

For the goodwill acquired in the business combination–refer note 4(a)–the Group estimated the recoverable amount of the cash generating unit to which the goodwill was provisionally allocated as of the date of acquisition to assess whether impairment existed. The estimation was made with the assistance of an independent expert. As a result of the computation the recoverable amount exceeded the carrying amount of the cash generating unit by approximately RUR 1,147 million/USD* 40 million.

The following key assumptions were used in determining the recoverable amount of the cash generating unit:

- ➤ A constant growth model was used to estimate the terminal value for the discounted cash flow analysis. A terminal growth of 2.5% was considered in estimating the terminal value;

- ➤ The terminal value was derived at the end of the five year interim period. It was anticipated that the acquired company would have achieved a stable long-term rate of growth;

- ➤ A pre-tax weighted average cost of capital of 14.18% was used as a discount rate for determination of the recoverable amount.

As a result of the impairment testing no impairment loss on the cash generating unit was recognised in this interim consolidated condensed financial information.

(ii) Impairment of accounts receivable

The Group reviews its receivables for impairment at each balance sheet date. The review is conducted on the level of the geographical segment. For each segment, the Group assesses whether objective evidence of impairment exists for each balance of receivable outstanding. If there is objective evidence that an impairment loss on a receivable balance has been incurred, the amount of the loss is measured as the difference between the carrying amount of the receivable and the present value of estimated discounted future cash flows. As a result of the management assessment the balance of provision as of 30 June 2005 amounted to:

	Russian subsidiaries	Vredestein Banden B.V.	Total
	In million RUR		
Provision balance	46	197	243
Gross receivables	4,183	2,387	6,570
Provision as a % of the gross receivable balance	1%	8%	4%

	Russian subsidiaries	Vredestein Banden B.V.	Total
	In million USD*		
Provision balance	2	6	8
Gross receivables	146	83	229
Provision as a % of the gross receivable balance	1%	8%	4%

(iii) Pension liabilities

As of 30 June 2005 only employees of Vredestein Banden B.V. and its subsidiaries participated in pension plans. The liabilities for the defined benefit plan were acquired as part of the business combination–refer note 4(a).

The pension liability was determined as of the date of acquisition of Vredestein Banden B.V. (refer note 4(a)) by an independent actuary.

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The following assumptions were used in the valuation.

Active employee members	
Number	1,061
Average age	43
Average past services	11
Average future services	14
Retired beneficiaries	
Number	54
Average age	63
Other information	
Individual salary increase (dependant on age)	0%-2.5%
Employee turnover (dependant on age)	0%-7%

The mortality level was assessed in accordance with the Dutch Mortality table GMB and GBV 1995–2000, with a 1-year setback.

The balance of the liability and related pension expense are disclosed in note 17.

(g) Reclassification

Balance presented as share premium reserve in the annual financial statements as of and for the year ended 31 December 2004 amounting to RUR 272 million/USD* 10 million was reclassified to Additional paid-in capital as both reserves are similar in nature.

3 Condensed segment reporting

The interim consolidated condensed segment information is presented in respect of the Group's geographical segment, which is the Group's primary format of segment disclosure.

Segment revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest expense, current and deferred income tax, and corporate expenses.

In 2004 the Group operated in two geographical areas: Russia and the Ukraine. As of 31 December, 2004 the Group discontinued its control over the operations of ZAO Rosava, which represented the Ukrainian geographical segment.

In April 2005 the Group acquired Vredestein Banden B.V., a Dutch tyre manufacturer, which mainly operates in countries of the European Union–refer note 4(a).

	Segment revenues for the six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Russia	6,668	4,850	232	169
Ukraine	–	1,534	–	54
Europe	1,322	–	46	–
Inter-segment revenues	–	(2)	–	–
Sales to external customers	7,990	6,382	278	223

	Segment result for the six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Russia	491	380	17	13
Ukraine	–	(21)	–	(1)
Europe	13	–	1	–
	504	359	18	12

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The revenues and the segment result of the European segment for the six months ended 30 June 2005 include two months of operations only as the Group acquired control over these operations on 25 April 2005–refer note 4(a).

4 Significant changes in the group structure

(a) Acquisition of Vredestein Banden B.V.

On 25 April 2005 the Group acquired 100% of the ordinary shares of Vredestein Banden B.V. (further referred to as ''Vredestein''). With the acquisition of Vredestein the Group also acquired control over the subsidiaries of Vredestein–refer note 23.

The cost of the business combination amounted to RUR 7,235 million/USD* 253 million and included the following components:

	RUR million	USD* million
Consideration paid to the previous shareholders	7,077	247
Costs directly attributable to the combination	158	6
	7,235	253

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and contingent liabilities were performed with the assistance of an independent appraiser.

The fair value of inventories was determined by reference to their selling price less costs to sell and a reasonable profit margin allocated to the selling effort. Subsequent to the date of acquisition the acquired company's profit before tax amounted to RUR 1 million/USD*-million. The period from the date of acquisition to 30 June 2005 represented an average inventory turnover period. On this basis management concluded that the carrying amount of inventories at the date of acquisition approximates their fair value.

The Group plans to finalize the allocation of the purchase consideration over the acquiree's identifiable assets, liabilities and contingent liabilities prior to finalizing the 2005 annual financial statements.

The effect of the acquisition on the Group's assets and liabilities is as follows:

Determined on a provisional basis	RUR million	USD* million
Property, plant and equipment	4,337	151
Identifiable intangible assets	992	35
Other non-current assets	193	7
Current assets	3,833	134
Non-current liabilities	(2,035)	(71)
Current liabilities	(3,121)	(109)
Net assets at the date of acquisition	4,199	147
Goodwill on acquisition	3,036	106
Consideration paid in cash	7,235	253

Vredestein did not prepare its financial statements in accordance with IFRSs prior to the acquisition date. Consequently it was not practicable to determine the carrying amounts of each of those classes of assets and liabilities in accordance with IFRSs immediately before the acquisition.

The revenue of the combined entity for the six-month period ended 30 June 2005 would have amounted to RUR 10,459 million/USD* 365 million had the business combination been effected on 1 January 2005. The profit of the combined entity for the period from 1 January to 30 June 2005 would have been RUR 150 million/ USD* 5 million had the business combinations been effected on 1 January 2005.

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(b) Acquisition of minority stakes in subsidiaries

In February 2005 the Group acquired approximately 4% of shares in OAO Shinny Komplex Amtel-Povolzhye, a Group subsidiary, for a consideration of RUR 54 million/USD* 2 million settled in cash. The transaction was structured in such a way that the Group acquired the shares from a company where the Controlling Shareholder controlled the selling price to the Group.

The book value of the minority interest acquired amounted to RUR 84 million/USD* 3 million. The excess of the book value of the minority interest over the consideration paid amounting to RUR 30 million/USD* 1 million was recognised as part of Gains relating to acquisition, restructuring and disposal of subsidiaries.

(c) Disposal of subsidiaries

In June 2005 the Group sold 100% of the shares in the following subsidiaries: OOO Amtelshinprom-Chernozemye, OOO Amtelshinprom-Krasnoyarsk, OOO Amtelshinprom-Severo-Zapad, OOO Amtelshinprom-Sibir, OOO Amtelshinprom-Yug, OOO Amtelshinrpom-Povolzhye to a company controlled by a former employee. The proceeds from the disposal amounted RUR 147 million/USD* 5 million.

In addition the Group sold its interest in OOO Krasshina-Invest and OOO Amtelshintorg to related parties.

The effect of disposal of the subsidiaries on the Group's assets and liabilities is as follows:

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Property, plant and equipment	50	17	2	1
Current assets	864	136	28	5
Liabilities	(807)	(342)	(28)	(12)
Net assets/(liabilities) disposed of	107	(189)	2	(6)
Increase in minority interest	–	12	–	–
Group's share of the net assets/(liabilities) disposed of	107	(177)	2	(6)
Derecognised accounts receivable from former subsidiaries	–	170	–	6
Gain/(loss) on disposal	122	7	6	–
Consideration receivable	229	–	8	–
Balance settled in cash/reduction in payables before period end	(101)	–	(4)	–
Receivables outstanding	128	–	4	–

5 Revenues

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Revenue from sales of tyres	6,648	5,190	231	181
Revenue from sales of other products and services	1,291	1,163	45	41
Sales to related parties	51	29	2	1
	7,990	6,382	278	223

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6 Other income and expenses, net

	Six month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Distribution expenses	(455)	(219)	(16)	(8)
Administrative expenses	(598)	(420)	(20)	(15)
Taxes, other than profits	(59)	(53)	(2)	(2)
Operating expenses	(129)	(191)	(4)	(5)
Profit/(loss) on disposal of property, plant and equipment	12	(55)	–	(2)
Gains relating to the acquisition, restructuring and disposal of subsidiaries (note 4)	152	7	5	–
	(1,077)	(931)	(37)	(32)

7 Staff costs

The staff costs for the period, including social contributions and current service costs relating to the defined benefit obligation, amounted to RUR 1,596 million/USD* 56 million (six-month period ended 30 June 2004: RUR 1,124 million/USD* 41 million). These costs are included in cost of sales, administrative and distribution expenses.

8 Net financing expense

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Interest income	40	4	2	–
Interest expense	(555)	(295)	(20)	(10)
Foreign exchange gains, net	114	10	4	–
Gain/(loss) on disposal of investments	(1)	30	–	1
	(402)	(251)	(14)	(9)

9 Income tax

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Current tax expense	(70)	(109)	(2)	(4)
Deferred tax (expense)/credit	(1)	30	–	1
	(71)	(79)	(2)	(3)

The applicable corporate income tax rates for the main jurisdictions where the Group companies operate were as follows:

	Six-month period ended 30 June			
	2005		2004	
	Current tax %	Deferred tax %	Current tax %	Deferred tax %
The Netherlands	31.5	31.5	34.5	34.5
Russia	24	24	24	24
The Ukraine	n/a	n/a	25	25
Cyprus	4.25-10	4.25-10	4.25-10	4.25-10
British Virgin Islands	–	–	–	–

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10 Property, plant and equipment

During the six-month period ended 30 June 2005, the Group acquired property, plant and equipment amounting to approximately RUR 622 million/USD* 22 million. This amount does not, however, include the property, plant and equipment acquired as part of the business combination–refer note 4(a). The net book value of assets disposed of amounted to RUR 12 million/USD*–million.

11 Intangible assets

During the six-month period ended 30 June 2005, the Group acquired intangible assets amounting to RUR 4,028 million/USD* 141 million as part of the business combination–refer note 4(a). The intangible assets acquired include RUR 3,036 million/USD* 106 of goodwill.

Other intangible assets include land lease rights, brand names, technology and software acquired as part of the business combination–refer note 4(a).

12 Inventories

	In million RUR		In million USD*	
	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
Raw materials and supplies	1,180	952	41	33
Work in process	267	149	9	5
Finished goods	2,371	832	83	29
Provision for obsolete inventory	(131)	(24)	(5)	(1)
	3,687	1,909	128	66

13 Trade and other receivables

	In million RUR		In million USD*	
	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
Trade accounts receivable	4,708	775	164	27
VAT receivable	752	661	26	23
Receivable for sale of shares in ZAO SP Rosava	396	396	14	14
Receivables from related parties	103	114	4	4
Other taxes receivable	82	68	3	2
Other receivables	529	172	18	6
Provision for doubtful debts	(243)	(62)	(8)	(2)
	6,327	2,124	221	74

14 Cash and cash equivalents

	In million RUR		In million USD*	
	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
Cash and cash equivalents in the balance sheet	3,808	195	132	7
Bank overdrafts	(464)	–	(16)	–
Cash and cash equivalents in the statement of cash flows	3,344	195	116	7

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15 Equity

(a) Share capital and additional paid-in capital

Number of shares	Ordinary shares	Preferred shares
Authorised shares at 30 June 2005, EUR 0.01 par value each	222,148,650	12,494,200
On issue at 1 January 2005	4,378,687	249,884
Issued for cash–February 2005	64,286	–
Issued to existing shareholders–April 2005	39,986,757	2,248,956
Issued for cash–June 2005	6,660,000	–
On issue at 30 June 2005	51,089,730	2,498,840

(b) Issue of shares

In February 2005 the Parent Company issued 64,286 ordinary shares to an institutional investor. The proceeds from the issue amounted to RUR 143 million/USD* 5 million and was received in cash.

In April 2005 the Parent Company issued 39,986,757 ordinary and 2,248,956 preferred shares to existing shareholders for no additional consideration. The par value of the shares issued is EUR 0.01.

In June 2005, the Parent Company issued 6,660,000 ordinary shares to institutional investors. The proceeds from the issue amounted to RUR 2,005 million/USD* 70 million and was settled in cash.

(c) Dividends

No dividends to ordinary shareholders were declared or paid in the six-month period ended 30 June 2005.

(d) Transactions with the Controlling Shareholder

During the period the Group's Controlling Shareholder withdrew a series of amounts from the Group and made a series of contributions to the Group:

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Withdrawals	(28)	(83)	(1)	(3)
Contributions	15	–	1	–
	(13)	(83)	–	(3)

All transactions comprised monetary assets, and are considered by management and the shareholder to be a net distribution. Accordingly, all movements have been recognized in retained earnings. As of 30 June 2005, an amount of RUR 64 million/USD* 2 million in respect of these transactions is due to the shareholder (31 December 2004: RUR 64 million/USD* 2 million).

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16 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	In million RUR		In million USD*	
	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
Non-current				
Unsecured bank loans	955	–	33	–
Secured bank loans	4,676	380	163	13
Unsecured credit linked notes	4,956	–	173	–
Convertible cumulative preferred shares	480	449	17	16
Unsecured bond issue	1,196	1,190	42	42
	12,263	2,019	428	71
Current				
Secured bank overdraft	464	–	16	–
Unsecured bank loans	2,160	605	75	21
Secured bank loans	1,638	1,594	57	56
Unsecured interest-free short-term loans from related parties	–	14	–	–
Unsecured bond issue	600	600	21	21
	4,862	2,813	169	98

(a) Terms and repayment schedule

	In million RUR			In million USD*		
	Total	Under 1 year	1-5 years	Total	Under 1 year	1-5 years
Secured bank loans:						
RUR, fixed at 5-15%	2,073	1,538	535	73	54	19
USD, fixed at 7.32%-7.92%	86	32	54	3	1	2
EUR, fixed at 8.04%-8.34%	188	68	120	6	2	4
EUR, variable at EURIBOR+2.25%	3,967	–	3,967	138	–	138
Secured bank overdraft, EUR, variable EURIBOR+2.25%	464	464	–	16	16	–
Unsecured bank loans:						
RUR, fixed at 12-15%	1,992	1,992	–	69	69	–
EURO, fixed at 10%	275	–	275	9	–	9
USD, variable at LIBOR+3.30%	848	168	680	30	6	24
Unsecured bond issues:						
RUR, maturing in 2005, 19%	600	600	–	21	21	–
RUR, maturing in 2007, 12.5%	1,196	–	1,196	42	–	42
Unsecured convertible cumulative preferred shares, USD, fixed at 8%	480	–	480	17	–	17
Unsecured credit linked notes, USD, fixed at 9.25%	4,956	–	4,956	173	–	173
	17,125	4,862	12,263	597	169	428

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The carrying amount of assets securing the Group's obligations is as follows:

	In million RUR		In million USD*	
	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
Owned property, plant and equipment and intangible assets	6,288	2,189	219	76
Leased property, plant and equipment	1,094	1,141	38	40
Inventory	674	461	24	16
Accounts receivable and other assets	707	350	24	12
	8,763	4,141	305	144

The Group pledged shares in the following subsidiaries to secure its loan obligations: Vredestein Banden B.V. (100%) and OAO Shinny Komplex Amtel-Chernozemye (50% and one share). The Group also issued guarantees to banks amounting to RUR 35 million/USD* 1 million.

(b) Finance lease liabilities

The carrying amount of the short-term finance lease liability as at 30 June 2005 was RUR 142 million/ USD* 5 million (31 December 2004: RUR 133 million/USD* 5 million). The carrying amount of the long-term finance lease liability is RUR 793 million/USD* 28 million (31 December 2004: RUR 822 million/ USD* 30 million).

17 Employee benefits

(a) Defined benefit obligation

The amounts recognised in the consolidated condensed balance sheet in respect of the Group's defined benefit obligations as of 30 June 2005 were as follows:

	RUR million	USD* million
Present value of unfunded defined benefit obligations	(158)	(6)
Present value of funded defined benefit obligations	(3,710)	(129)
Fair value of plan assets	2,641	92
Unrecognised actuarial losses	208	7
Net liability	(1,019)	(36)

The amounts recognised during the period in the statement of income were as follows:

	RUR million	USD* million
Service costs	24	1
Interest costs	25	1
Expected return on plan assets	(23)	(1)
Total included in staff costs	26	1

The amounts were recorded in cost of goods sold, administrative and distribution expenses.

(b) Share-based compensation

In December 2004 the Group issued the share appreciation rights representing 4% of the issued shares of the Parent Company to six senior managers of the Group.

These share appreciation rights expire in 10 years from the date of issue and are exercisable when:

➤ The Group's shares are listed or the Group achieves certain capitalisation targets; and

➤ Managers meet their individual performance objectives.

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The fair value of the shares to be granted (or cash alternative payable) is restricted to RUR 143 million/ USD* 5 million per employee.

The managers' individual performance objectives are defined broadly and their performance is to be measured by the supervisory board before an initial public offering. Consequently, management believes that the grant date has not been reached to date. As a result, the management remuneration in the form of the share appreciation rights was not recognised as an expense in this interim consolidated condensed financial information.

The total number of share appreciation rights outstanding as at 30 June 2005 is 2,128,390, which is approximately 4% of the total outstanding ordinary share.

18 Trade and other payables

	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
	In million RUR		In million USD*	
Trade accounts payable	1,694	738	59	26
Payables to related parties, other than to the Controlling Shareholder	144	141	5	5
Taxes payable other than VAT	665	215	23	7
Payables to Controlling Shareholder	63	64	2	2
Current portion of finance lease liability	142	133	5	5
VAT payable	277	200	10	7
Payables to joint venture	–	51	–	2
Other payables	710	243	25	10
	3,695	1,785	129	64

19 Earnings per share

In number of shares	Six-month period ended 30 June 2005	2004
Issued ordinary shares at 1 January, including effect of shares issued to existing shareholders in April–refer note 15(b)	43,786,870	41,668,210
Effect of share award–February 2004	–	636,283
Effect of shares issued for cash–February 2005	428,573	–
Weighted average number of ordinary shares	44,215,443	42,304,493

20 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has insured a significant part of the Group's production facilities in Russia, including Voronezh tyre plant, Kirov tyre plant, Krasnoyarsk tyre plant, Kemerovo Chemical Fiber plant, and Volgograd carbon black plant against damage arising from accidents or fire. The insurer, however, will not reimburse the Group for business interruption or any environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage in Russia, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Bankruptcy law

The bankruptcy law in Russia is relatively new, often unclear and subject to interpretation. Application of bankruptcy procedures in practice is often contradictory, and the legality of such procedures is often challenged by different groups of stakeholders, even after all bankruptcy procedures have been completed.

A significant part of the assets of Amtel Group relating to the Russian operations was acquired as a result of bankruptcy procedures. Should the former legal owners of these assets or their shareholders challenge the

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process by which the Group acquired such assets, such transactions may be declared invalid and fines levied on the Group. The effect of such potential challenge could be significant, and could materially impact the financial position of the Group. However, the risk of economic benefit outflow as a result of the above is considered less than probable.

(c) Corporate law

In 2004 the Group sold 15% of its shares in OAO Shinny Komplex Amtel-Povolzhye (formerly, OAO Kirov tyre plant) to a related party.

During 2004 and 2005 transactions in OAO Shinny Komplex Amtel-Povolzhye were made whereby the company issued guarantees and pledges for other companies of the Amtel Group for the amount of USD 270 million (approximately RUR 7,500 million). Russian legislation requires that such transactions be approved by minority shareholders at a shareholders' meeting. In such voting, the majority shareholder and its ''affiliated entities'' (as defined by the Russian law) are by law excluded from voting. Management believes that the acquiring party is not an affiliated entity under Russian law and therefore that the risk of these transactions being challenged, and the likelihood of success by any such challenger, is remote.

In the event that a challenge were successful, finance lease non-current liabilities of RUR 612 million/USD* 21 million and long-term credit linked notes in the amount of RUR 4,956 million/ USD* 173 million could become repayable on demand. In such circumstance the Group may be forced to negotiate new terms of repayment with the lender, or to forfeit the leased assets–refer note 16(b).

In July 2005 the Group exercised its option and repurchased the shares from the related party refer note 25(b).

(d) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In particular, a number of companies of the Amtel Group used special purpose entities (''SPEs''), mainly in periods before 31 December 2002, in which they did not hold any direct or indirect equity interest, for tax and customs minimisation purposes. The methods used by the SPEs to reduce taxation are not fully compliant with the Russian tax legislation. Management of these SPEs is responsible for the correctness and timeliness of the tax payments by the SPEs; however, the management of the companies of the Amtel Group may also be held responsible indirectly.

Based on the facts available, the risk of significant economic benefit outflow as a result of potential claims for additional tax, customs and other liabilities being ultimately imposed on the SPEs or the Group is less than probable. However, the SPEs' lack of full compliance with applicable Russian tax legislation could result in such tax, customs and other liabilities (and related penalties and interest), which could materially impact the Group's consolidated financial report.

21 Related party transactions

(a) Control relationships

The parent company of Amtel-Vredestein N.V. is Amtel Luxembourg S.A.

Related parties comprise the Controlling Shareholder of the Parent Company and all other companies in which the shareholder has a controlling interest or significant influence. Transactions with key management personnel

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and entities that are controlled, jointly controlled or significantly influenced by the individuals mentioned, were also recognised and disclosed as related party transactions.

(b) Transactions and balances with related parties

During the six-month period ended 30 June 2005 the Group undertook the following transactions with related parties:

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Sales to related parties	51	29	2	1
Purchases of goods	158	49	6	2
Rent expenses incurred	26	26	1	1
Consideration paid for minority shares in subsidiaries	83	–	3	–
Proceeds from disposal of property, plant and equipment	81	–	3	–

As of 30 June 2005 the Group companies recorded the following balances with related parties:

	30 Jun 2005	31 Dec 2004	30 Jun 2005	31 Dec 2004
	In million RUR		In million USD*	
Short-term interest free loan issued to related parties	224	99	8	3
Trade and other receivables	103	120	4	4
Payables to related parties other than the Controlling Shareholder	212	192	7	7
Unsecured short-term loans	–	14	–	1
Payables to the Controlling Shareholder	64	64	2	2

During the period the Company sold third party receivables amounting to RUR 22 million/USD* 1 million to a related party. As of 30 June 2005 proceeds from the transaction had not been received.

Transactions with related parties on acquisition and disposal of shares in subsidiaries are disclosed in notes 4(b) and 4(c).

(c) Pricing policies

Prices for transactions with the related parties are determined as agreed between the parties.

22 Seasonality of operations

The Group's operations are affected by seasonality, peaking in September-November for winter tyres and in March-April for summer tyres, and reaching their lowest levels in January and May. Sales of all-season tyres are more stable throughout the year but decrease slightly from January through to March.

23 Significant subsidiaries

	Note	Country of incorporation	Effective ownership interest as of 30 Jun 2005	Effective ownership interest as of 31 Dec 2004
Holding companies				
Amtel Exports PTE Limited		Cyprus	100	100
Tapistron Limited		Cyprus	100	100
OAO Amtel–Vredestein OOO (formerly, Kholdingovaya Kompaniya Amtel)		Russia	100	100
Amtel B.V. (newly formed)		The Netherlands	100	–

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information – refer note 2(d)*

	Note	Country of incorporation	Effective ownership interest as of 30 Jun 2005	31 Dec 2004
Russian production companies				
Krasnoyarsk tyre plant ZAO Shinny Komplex Amtel-Sibir		Russia	100	100
ZAO Krasny Yar-Shina		Russia	100	100
ZAO Sibirskaya Shina		Russia	100	100
OOO PO Krasnoyarsky Shinny Zavod		Russia	100	100
OOO Krasshina Invest	4(c)	Russia	–	100
Krasnoyarsk rubber goods plant				
OOO TD Amtel-Elast		Russia	–	100
Voronezh tyre plant				
OOO Amtel Chernozemye		Russia	100	100
OAO Shinny Komplex Amtel Chernozemye		Russia	100	100
Kirov tyre plant				
OOO TD Kirovsky Shinny Zavod	4(b)	Russia	90	86
OOO Vyatskaya Shina	4(b)	Russia	90	86
OAO Shinny Komplex Amtel Povolzhye	4(b), 20(c)	Russia	90	86
Volgograd carbon black plant				
OOO Amtel-Carbon		Russia	100	100
OOO Volgogradsky Zavod Ttekhugleroda		Russia	100	100
OOO Volgokhimpererabotka		Russia	100	100
Kemerovo Chemical Fiber Plant				
OAO Khimvolokno Amtel-Kuzbass		Russia	100	100
OOO Khimvolokno Amtel-Kuzbass		Russia	100	100
Russian trading companies				
OOO Amtelshintorg		Russia	–	100
OOO Amtel-shina Kuzbass		Russia	100	100
OOO Amtelshinprom		Russia	100	100
OOO Amtelshinprom-Chernozemye	4(c)	Russia	–	100
OOO Amtelshinprom-Krasnoyarsk	4(c)	Russia	–	100
OOO Amtelshinprom-Severo-Zapad	4(c)	Russia	–	100
OOO Amtelshinprom-Sibir	4(c)	Russia	–	100
OOO Amtelshinprom-Yug	4(c)	Russia	–	100
OOO Amtelshinrpom-Povolzhye	4(c)	Russia	–	100
Amtel Enterprises		Singapore	100	100
Vredestein Group				
Vredestein Banden B.V	4(a)	The Netherlands	100	–
Vredestein Consulting B.V		The Netherlands	100	–
Twekkeler Es Beheer B.V		The Netherlands	100	–
N.V. Vredestein SA		Belgium	100	–
Vredestein GmbH		Germany	100	–
Vredestein (UK) Ltd		UK	100	–
Vredestein France SA		France	100	–
Vredestein Maloya Italia Srl		Italy	100	–
Vredestien FKR (Malaysia) SDNBHD, Klang		Malaysia	40	–
Vredestein Norge A/S		Norway	100	–
Vredestein GesmbH		Austria	100	–
Vredestein Iberica SA, Cornella de Llobregat		Spain	100	–
Vredestein Daeck, Hisings Backa		Denmark	100	–
Maloya Vredestein AG		Germany	100	–
Other companies				
Melina Investments Ltd		BVI	100	100
OOO Amtel-Logistics Center		Russia	100	100

* *The USD figures are not reviewed and are provided for information purposes only. They do not form part of the interim consolidated condensed financial information – refer note 2(d)*

24 Earnings before interest, tax, depreciation and amortisation

	Six-month period ended 30 June			
	2005	2004	2005	2004
	In million RUR		In million USD*	
Profit attributable to equity holders of the Parent	26	91	1	3
Adjustments for:				
Interest expense	555	295	20	10
Interest income	(40)	(4)	(2)	–
Income tax expense	71	79	2	3
Taxes other than profit	59	53	2	2
Depreciation and amortisation expense	505	370	18	13
	1,176	884	41	31

25 Events subsequent to the balance sheet date

(a) Initial public offering

Subsequent to the balance sheet date, the management applied for an approval with the Dutch Securities Regulator (AFM) for a listing on the London Stock Exchange. The initial public offering is planned for November 2005.

(b) Acquisition of 15% of the shares in OAO Shinny Komplex Amtel-Povolzhye

In July 2005, the Group exercised its option to purchase 15% of the shares in OAO Shinny Komplex Amtel-Povolzhye – refer note 20(c).

(c) Restructuring

In July 2005 management announced that it would cease production of passenger car tyres in Krasnoyarsk and truck tyres in Voronezh. This decision may affect the recoverable amounts of property, plant and equipment and goodwill in future periods.

In addition, management announced that it would substantially reduce the number of employees in Voronezh and Krasnoyarsk. This decision may result in a restructuring provision being recognised in future periods.

The management has not yet developed and announced a detailed restructuring plan. Consequently the amount of restructuring provisions, and the amount of adjustment to the carrying amount of property, plant and equipment and goodwill, if any, cannot be measured reliably at the balance sheet date.

(d) Merger

In July 2005, Amtel B.V., Vredestein Banden B.V. and Twekkeler Es Beheer B.V. combined to form one legal entity.

(e) Repayment of a long-term liability

In July 2005 the Group repaid a loan amounting to RUR 276 million/USD* 10 million with an original maturity of September 2006, which is classified as a long-term debt in this financial information.

(f) Acquisition of tyre distribution businesses

In September 2005 the Group announced that it intends to acquire two retail businesses specializing in sales of tyres and other car related accessories and services in Moscow and Moscow region, Russia. As of the date of issue of this financial information the transaction has not been finalized.

(g) Name change

In October 2005 Amtel Holdings Holland N.V. changed its name to Amtel-Vredestein N.V.

(h) Conversion of shares

In October 2005 all preference shares of the Parent Company were converted to ordinary shares.

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VREDESTEIN
BANDEN • REIFEN • TYRES • PNEUS

VREDESTEIN BANDEN B.V.
ANNUAL ACCOUNTS 2004

Translation of the
official Annual Accounts (in Dutch)

Table of Contents

ANNUAL REPORT

The board of management of Vredestein Banden B.V. presents its annual accounts for the financial year ended 31 December 2004.

General

Organisation
Vredestein Banden B.V. is a 100% subsidiary of Vredestein N.V., a Dutch group with international operations. Vredestein Banden B.V. concentrates on developing, manufacturing, marketing, sales and distribution tyres and supplies tyres for passenger cars, agricultural and industrial vehicles and bicycles. Vredestein Banden B.V. is based in Enschede. Its activities are centred in Europe, where the company and its products have a good reputation. At the same time, Vredestein's intention to bring about further internationalisation is clearly taking shape in sales outside Western Europe. The number of employees averaged 1,169 in 2004, 132 of whom came from outside the Netherlands.

Sales
The proposed acquisition of Vredestein Banden B.V. by Amtel Holdings Holland N.V was announced in November 2004. At the time of adopting the annual accounts the acquisition process was still continuing and had not yet resulted in the conclusion of a final agreement. This is expected to occur in mid-March 2005.

Strategy
Vredestein Banden B.V.'s strategy aims to further strengthen the company's positions in the top market segments by developing superior quality tyres. Production of tyres with high added value is concentrated in the Netherlands; to a growing extent, tyres with lower margins are being purchased from outside suppliers.

Risk profile

Financial risks
Price fluctuations are passed on in selling prices where possible, although this is generally subject to some delay. A trend of increasing importance to Vredestein during the year under review was the growth of trading activities, with payments for purchases of finished products usually being made in dollars or dollar-related currencies. The net currency risks on obligations already entered into are partly covered.

Market and operational risks
Vredestein eliminates the effects of fluctuations in raw material costs as far as possible by concluding long-term purchase contracts. The provisions made in the balance sheet for uncollectable debts and possible obsolescent stocks of finished products are regarded as adequate. Vredestein also pursues an active evaluation policy in respect of its customers' creditworthiness. Bigger risks in respect of property, loss of profits and liability have been brought under a world-wide cover policy. Risks in the case of claims and legal action are monitored closely and where necessary provisions are made.

Investments/divestments
Investments amounted to EUR 15.1 million (2003: EUR 8.5 million), well above the level of depreciation. Depreciation totalled EUR 11.5 million in 2004 (2003: EUR 11.9 million). Divestments amounted to 0.1 million, as they did in 2003. As far as we can tell at present, investments in 2005 will again exceed the level of depreciation.

Finance and financial position
Cash flow from operational activities amounted to EUR 46.1 million (2003: EUR 20.3 million). Once again, Vredestein achieved a significant reduction in its debt position. In the autumn of 2004 the company's debts were refinanced.

Employees, safety and the environment
The mean number of full-time employees fell from 1,194 in 2003 to 1,169 in 2004. The number of temporary staff fell slightly, from an average of 85 in 2003 to an average of 83 in 2004. In June 2003 the employers' and employees' organisations in the Netherlands reached agreement on a new Collective Labour Agreement which ran for a term of 12 months to 14 June 2004; this included a wage rise of 2.5% in July 2003. In September 2004, taking into account the social climate in the Netherlands, it was decided to conclude a collective labour agreement for a term of six months (to the end of 2004). Agreement was reached on a one-off payment to the staff and an increase in pension premiums. No wage rises were awarded.

Most significant developments and events

➤ Very good year, with substantial turnover growth

➤ Financial policy successfully continued, with the best results yet

Vredestein Banden operates development, production and marketing facilities in Enschede for the benefit of four product groups: passenger and truck tyres, bicycle tyres, agricultural tyres and industrial tyres. Manufacturing for the industrial tyre group is no longer carried out through a joint venture in Malaysia, but has been transferred to a manufacturing company in Indonesia with which Vredestein has signed a sourcing contract. In addition, the company has sales offices in virtually all the European countries and the United States. The good state of financial affairs in 2004 can be directly traced back to the successful implementation of the strategy formulated earlier in the areas of active product development, price-setting, marketing efforts and on-going strict cost control. Vredestein's policy will therefore continue to focus on frequent introductions of outstanding quality, new types of tyres, especially in the highest possible segments.

Expected developments
The board of management does not expect the announced acquisition of Vredestein Banden B.V., to have any significant effects on the course of events in 2005. The policy which the company has begun will be continued with vigour, with the aim of achieving further growth while maintaining good profitability.

The Board thanks all staff for their commitment and efforts in the past year.

Enschede, 18 March 2005

The Board of Management
Drs. R.H. Oudshoorn
Drs. A.W. Tholens

ANNUAL ACCOUNTS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

Before profit appropriation

	2004	2003
	(in millions of euros)	
ASSETS		
Fixed assets		
Tangible fixed assets	50.5	47.0
Financial fixed assets	0.1	0.2
	50.6	47.2
Current assets		
Inventories	32.8	34.4
Receivables	52.0	54.9
Cash at bank and in hand	6.0	3.9
	90.8	93.2
TOTAL	141.4	140.4
LIABILITIES		
Shareholders' equity	80.3	75.7
Provisions	3.9	3.4
Long-term debt	6.5	13.9
Short-term debt	50.7	47.4
TOTAL	141.4	140.4

CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	2004	2003
	(in millions of euros)	
Net sales	230.8	216.5
Cost of sales	168.2	163.2
Gross profit	62.6	53.3
Selling costs	29.3	29.0
General management costs	10.3	11.0
Total costs	39.6	40.0
Net profit	23.0	13.3
Other operating revenues	0.9	1.3
Operating result	23.9	14.6
Interest charges and similar costs	–1.4	–2.4
Operating result before taxes	22.5	12.2
Taxes	–7.8	–0.3
Income from participating interests	–0.1	0.0
NET RESULT	14.6	11.9

CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	2004	2003
	(in millions of euros)	
Net result	14.6	11.9
Depreciation	11.5	11.9
Cash flow	26.1	23.8
Movement		
Provisions	0.5	–0.7
Working capital	19.5	–2.8
	20.0	–3.5
Cash flow from operations	46.1	20.3
Investments		
Tangible fixed assets		
– investments	–15.1	–8.5
– divestments	0.1	0.1
Financial fixed assets	0.0	0.0
Cash flow from capital expenditure	–15.0	–8.4
Dividends paid	–10.0	–3.1
Change in long-term debt position	–7.4	3.2
Cash flow from financing activities	–17.4	0.1
CHANGE IN CASH POSITION	13.7	12.0

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2004

Company
Vredestein Banden B.V. is a private company with limited liability. As at the end of 2004, Vredestein NV owns 100% of the shares in Vredestein Banden B.V.

Vredestein Banden B.V.'s main participating interests are:

- Vredestein Consulting B.V., Enschede
- Twekkeler Es Beheer B.V., Enschede
- NV Vredestein SA, Brussels
- Vredestein GmbH, Koblenz
- Vredestein (UK) Limited, Wellingborough
- Vredestein France SA, Paris
- Vredestein Maloya Italia Srl, Rimini
- Vredestein FKR (Malaysia) SDN BHD, Klang (40%)
- Vredestein Norge A/S, Oslo
- Vredestein GesmbH, Vienna
- Vredestein Iberica SA, Cornellà de Llobregat (Barcelona)
- Vredestein Däck AB, Hisings Backa (Göteborg)
- Maloya Vredestein AG, Gelterkinden

Unless otherwise stated, the equity percentage held in each company is 100%.

The details of a number of small subsidiary companies have been omitted on the grounds of article 363 paragraph 3, part 9, book 2 of the Netherlands Civil Code.

Application of article 402, book 2 of the Netherlands Civil Code
Article 402, part 9, book 2 of the Netherlands Civil Code applies to the corporate income statement.

Consolidation principles
The group accounts include the accounts of Vredestein Banden B.V. and its group companies. Group companies are subsidiaries over which Vredestein Banden B.V. has direct and/or indirect power of control.

The assets and liabilities and the results of the consolidated companies are included in full. Transactions between consolidated companies are not included in the consolidated annual accounts.

General principles for the presentation of the annual accounts
The annual accounts have been prepared in accordance with financial reporting principles accepted in the Netherlands, and comply with the statutory regulations governing annual accounts as set out in Part 9, book 2 of the Netherlands Civil Code.

Unless otherwise indicated, all amounts are stated in millions of euros.

Principles for valuation of assets and liabilities and determination of result

General
The principles used for valuation and determination of result are based on historical costs. Revenues and expenses have been allocated to the year to which they apply.

Unless otherwise indicated, assets and liabilities are stated at nominal value.

Foreign currency and exchange rate differences
Amounts in foreign currencies have been converted into euros at the exchange rate prevailing at the end of the year under review for the balance sheet, while the mean exchange rate for the review period has been used for the income statement.

Exchange rate differences arising from interests in foreign subsidiaries which have the character of sales companies of proprietary products, and exchange rate fluctuations arising from current transactions, are included in the result.

Exchange rate differences on currency hedging agreements are also credited to the result and compensate for exchange rate differences on the related items. In so far as exchange rate results for current hedging transactions relate to future cash flows, these are not included in the result.

Balance sheet and income statement

Tangible fixed assets
Tangible fixed assets are valued at cost less depreciation. Depreciation is calculated according to the straight-line method, with the rate depending on the expected useful life of the asset concerned. No allowance is made for residual values.

The term of depreciation is generally:

➤ business premises: 20-33 years

➤ plant and machinery: 8-10 years

➤ other tangible fixed assets: 3-5 years

Maintenance expenditure is only capitalised if it extends the useful life of the object concerned.

Financial fixed assets
The minority interests included under this heading are valued according to the net asset value method, based on net asset value less the necessary provisions.

Impairment or disposal of fixed assets
The company recognises tangible and financial fixed assets in accordance with financial reporting principles generally accepted in the Netherlands. According to these principles, assets with a long useful life must be assessed for impairment when changes or circumstances occur that give rise to the presumption that the book value of an asset will not be recouped. The probability of recouping the value of assets in use is calculated by comparing the book value of an asset with the future net cash flows that the asset is expected to generate. If the book value of an asset exceeds the estimated future cash flow, the difference between the book value and the actual value of the asset is debited against the result for impairment. Assets available for sale are valued at the lower of book value and market value, less sales costs.

Inventories
Raw materials and consumables are valued at purchase price. The purchase price is calculated according to the ''first in first out'' method, or market value if lower.

Finished products and goods in progress are valued at the lower of cost and sales value. General costs not relating to production, sales and financing costs are not taken into account.

Where necessary, inventory values are decreased by a provision for the risk of obsolescence.

Receivables
Receivables are valued at face value, less a provision for the risk of uncollectable receivables where necessary.

Provisions
Provisions are calculated at face value, with the exception of provisions for pension commitments and deferred taxes. In principle the provision for pension commitments is based on actuarial calculations.

The provision for deferred tax liabilities is included for discrepancies between fiscal and commercial valuations. The provision is calculated on the basis of a 5% discount rate.

The provisions for reorganisations relate to the share of the estimated redundancy costs arising from reorganisations that has not yet been used.

Net sales
Net sales consists of revenues from goods delivered and invoiced to third parties, excluding sales tax and less discounts, rebates and guarantee payments.

Cost of sales
The cost of sales includes the purchase cost and production costs of goods delivered and invoiced to third parties, plus any downward revaluation of inventories to a lower disposal value.

Production costs include the following:

➤ costs of raw materials and consumables, energy and other materials;

➤ depreciation and maintenance of production resources;

➤ salaries, wages and social security charges for employees involved in production.

Share in the result of companies in which Vredestein has a participating interest
The share in the result of companies in which Vredestein has a participating interest includes the group's share of the results of those participating interests.

The results of participating interests acquired or disposed of during the financial year are included in the group's results from the acquisition date or up to the disposal date respectively.

Income taxes
Income taxes include both taxes to be settled in the short term and deferred taxes, taking into account tax concessions and non-deductible costs. Tax is not deducted from profits if and in so far as those profits can be offset against losses made in preceding years.

Tax is deducted from losses if these can be offset against profits made in previous years and doing so will result in a tax rebate. Tax is also deducted if it can reasonably be assumed that offsetting losses against future profits will be possible. An active deferral for losses that can be carried forward is included in the balance sheet. The management expects to be able to partially offset the losses in the coming years. The active tax deferral has been calculated on the basis of the expected loss set-off and a discount rate of 5%.

Cash flow statements
The cash flow statement has been drawn up on the basis of the indirect method. Cash flows in foreign currencies have been converted into euros, using the weighted average conversion rates for the periods concerned.

Use of estimates
In accordance with generally accepted accounting principles, when drawing up the annual accounts the company management must make certain estimates and assumptions that partly determine the amounts stated in the accounts. The actual results can deviate from these estimates.

Tangible fixed assets
Movements in tangible fixed assets were as follows:

	Land and buildings	Plant and machinery	Other tangible operating assets	Tangible fixed assets under construction	TOTAL
Position as at 1 January 2004					
Cost	30.3	214.1	60.5	2.4	307.3
Depreciation	–17.9	–188.8	–53.6	0.0	–260.3
Book value	12.4	25.3	6.9	2.4	47.0
Changes in book value					
Investments	0.0	0.0	0.2	14.9	15.1
Divestments					
– Acquisition value	0.0	0.0	–0.4	0.0	–0.4
– Depreciation	0.0	0.0	0.3	0.0	0.3
Depreciation for financial year	–1.0	–7.5	–3.0	0.0	–11.5
Completed	3.1	8.8	3.7	–15.6	0.0
Balance	2.1	1.3	0.8	–0.7	3.5
Position as at 31 December 2004					
Cost	33.4	222.9	64.0	1.7	322.0
Depreciation	–18.9	–196.3	–56.3	0.0	–271.5
Book value	14.5	26.6	7.7	1.7	50.5

The value of tangible fixed assets financed by leasing was 1.7 million euros at the end of 2004 (2003: 2.5 million euros). Beneficial ownership of these leased assets rests with the company.

The tangible fixed assets have an assessed value of 348 million euros for insurance purposes.

Financial fixed assets
This refers to non-consolidated participating interests. The change relates to the result from non-consolidated participating interests.

Inventories
Inventories can be broken down as follows:

	2004	2003
Raw materials and consumables	2.4	2.4
Semi-finished products	3.0	2.7
Finished products and merchandise	23.2	25.1
Other inventories	4.2	4.2
	32.8	34.4

Provisions for obsolescence of 2.2 million (2003: 2.5 million euros) have been deducted from the inventories.

Receivables
Receivables can be broken down as follows:

	2004	2003
Trade receivables	44.6	46.7
Receivables from group companies	0.3	2.8
Other receivables	5.6	3.6
Accrued income and prepaid expenses	1.5	1.8
	52.0	54.9

A provision for uncollectable accounts of 5.4 million euros (2003: 5.0 million euros) has been deducted from trade receivables.

Receivables from group companies included a current account amount of 2.8 million euros due from Vredestein N.V. in 2003. This amount was zero at the end of 2004.

Other receivables include a guarantee deposit relating to leases with a term exceeding one year. For further details see page 16.

Other receivables also include an amount of 1.2 million euros (2003: zero) for deferred tax credits.

This represents the available tax loss carry-forward for foreign subsidiaries brought to valuation; of this, an estimated 0.9 million euros has a term of more than one year. The valuation was carried out at present value, at a nominal interest rate of 5%.

The term of the other receivables is less than one year.

Group equity
For details of changes in group equity see the Notes to the corporate balance sheet on page 21.

Provisions
Provisions can be broken down as follows:

	Pension commitments	Re-organisation	Deferred tax liabilities	TOTAL
Position as at 1 January 2004	3.0	0.4	0.0	3.4
Additions	0.3	0.2	0.5	1.0
Expenditure	–0.2	–0.3	0.0	–0.5
Position as at 31 December 2004	3.1	0.3	0.5	3.9

Pension commitments relate to a limited number of non-reinsured commitments towards employees in Germany who have been granted pension rights.

The provision was calculated on the basis of German tax regulations, using a nominal interest rate of 6%.

The pension rights of employees in the Netherlands are covered by the Vredestein Pension Fund, which has reinsured its commitments. At the end of 2003 the Vredestein Pension Fund had a level of cover of 105.4%, as calculated according to the rules of the Netherlands Pension and Insurance Chamber. The level of cover at the end of 2004 has not yet been calculated. Vredestein has drawn up a plan to create additional resources to cover the provision for pension commitments, the reserve for general risks and the other necessary reserves, and long-term agreements have been made to further improve the investment reserves over a period of 8 years at maximum, commencing in 2002.

A nominal interest rate of 4% and the life expectancy table 'Whole Male Population/Whole Female Population 1980-1985 with ages reduced by 2 years for men and by 3 years for women' was used to calculate the accrued pension rights in the Netherlands at the end of 2003.

The deferred tax liabilities are due to temporary differences between the fiscal and commercial valuation principles, and are valued at present value at a nominal interest rate of 5%. They do not include deferred tax liabilities relating to accrued profits of foreign subsidiaries.

The pension commitments and deferred tax liabilities are of a long-term nature. The reorganisation provision is of a short-term nature.

Long-term debt
Long-term debts can be broken down as follows:

		2004	2003
Debts to credit institutions	*	4.5	6.5
Mortgages	3.6%	1.3	1.3
Lease	4.6%	0.7	1.6
Intercompany loan	8.0%	0.0	4.5
		6.5	13.9

* *The interest rate is based on the 6-month EURIBOR figure plus a 2% surcharge.*

Vredestein N.V.'s intercompany loan was repaid in 2004.

Repayment commitments with a term exceeding 5 years are zero. Repayment commitments with a term of less than one year are included in short-term debt. For figures on securities provided, see 'Debts to credit institutions'.

Short-term debt
Short-term debts can be broken down as follows:

	2004	2003
Banks	0.0	11.7
Suppliers	19.9	19.0
Taxes and social security contributions	14.8	5.6
Short-term portion of long-term debt	5.8	4.3
Vredestein Pension Fund	0.6	0.3
Debts to group companies	2.2	0.2
Other debts	7.4	6.3
	50.7	47.4

Debts to group companies include a current account debt to the parent company Vredestein N.V. of 2.1 million euros (2003: zero).

Debts to credit institutions
A credit agreement was signed by Vredestein N.V., the parent company of Vredestein Banden B.V. At the end of 2004 Vredestein Banden B.V. provided securities for debts to credit institutions in the form of mortgages and pledges on movable property, inventories, accounts receivable, intercompany receivables, bank assets, brand rights and shares in Vredestein Banden B.V. and Vredestein GmbH.

Tax position
Vredestein Banden B.V. is part of the Vredestein N.V. tax group. Because of this, Vredestein Banden B.V. is jointly liable for the tax liability of the tax group as a whole.

Corporation tax of 7.8 million euros is included in the annual accounts for Vredestein Banden B.V. This amount has been calculated by applying the actual tax rates for each country to their results. The average tax rate used is 34.8%.

In 2003 Dutch corporation tax was borne by Vredestein N.V. as the head of the tax group and not included in the income statement for 2003.

Deferred and acute receivables and commitments relating to income tax were included in Vredestein Banden B.V.'s balance sheet for the first time at the end of 2004. They were previously presented by Vredestein N.V. as head of the tax group.

Commitments not disclosed in the balance sheet

As at 31 December 2004 Vredestein's investment commitments amounted to 1.2 million euros (2003: 2.2 million euros). Lease obligations relating to various capital assets totalled 6.2 million euros per year (2003: 6.0 million euros).

Recourse exposure was 0.3 million euros at the balance sheet date due to discounted bills of exchange (2003: zero).

Various claims were submitted against Vredestein Banden B.V. at the end of 2004, all of which are disputed. The most important of these is a notice of liability for consequential loss as a result of the fire in 2003, which according to the insurer is fully covered by the policy concluded by Vredestein N.V. apart from a policy excess of 50,000 euros. Although the outcome is uncertain, based on the legal advice and information it has obtained the management of the company does not believe that these claims significantly affect the consolidated financial position, nor that they could significantly affect the cash flow result for any reporting period.

A guarantee of 63,000 euros was provided for leased properties.

Affiliated parties

As at 31 December 2004 there are a number of rental agreements with Vredestein investment Consortium (VICO) NV. VICO indirectly holds all the shares in Vredestein Banden B.V. The agreements relate to the rental of business premises and represent an annual rental obligation of 3.3 million euros (2003: 3.3 million euros). A guarantee deposit of 3.3 million euros was provided (2003: 3.3 million euros); this is included in the balance sheet under other receivables.

A loan of 0.5 million euros was also made to VICO (2003: 0.5 million euros). This is included in accrued income and prepaid expenses.

Financial instruments

The exchange rate risk arising from future purchases and sales in foreign currencies is partly hedged. At the end of 2004 outstanding purchase contracts for US dollars totalled 3.8 million euros and sales contracts for pounds sterling totalled 3.7 million euros.

The actual value of forward foreign exchange contracts was estimated externally by banks; this amounted to approximately – 0.3 million euros. No provision was made for this since these contracts relate to future cash flows.

Net sales

The geographical distribution of sales is as follows:

	2004	2003
The Netherlands	24.6	21.1
Germany	80.3	74.3
Rest of Europe	120.2	115.5
Other countries	5.7	5.6
	230.8	216.5

Staff costs	2004	2003
Wages and salaries	49.7	48.9
Social security contributions	7.5	7.4
Pension contributions	4.1	3.2
Other costs	1.7	2.1
	63.0	61.6

Number of employees	2004	2003
Number of employees (average)	1,169	1,194

BALANCE SHEET AS AT 31 DECEMBER 2004

Before profit appropriation

	2004	2003
	(in millions of euros)	
ASSETS		
Fixed assets		
Tangible fixed assets	48.6	45.0
Financial fixed assets		
Participating interests in group companies	12.5	19.4
Other participating interests	0.1	0.2
Receivables from participating interests	1.2	1.2
	13.8	20.8
Current assets		
Inventories	28.3	29.2
Receivables		
Trade receivables	12.3	11.7
Receivables from group companies	25.0	30.6
Other receivables	6.3	4.9
	43.6	47.2
Cash at bank and in hand	1.1	0.0
TOTAL	135.4	142.2
LIABILITIES		
Shareholders' equity		
Issued capital	9.1	9.1
Share premium reserve	31.6	31.6
Other reserves	25.0	23.1
Undistributed profit	14.6	11.9
	80.3	75.7
Provisions	0.7	0.2
Long-term debt	5.2	12.6
Short-term debt		
Trade accounts payable	17.8	17.5
Banks	0.0	13.4
Debts to group companies	10.2	10.9
Taxes and social security contributions payable	9.5	2.6
Other short-term debt	11.7	9.3
	49.2	53.7
TOTAL	135.4	142.2

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	2004	2003
	(in millions of euros)	
Profit from participating interests after tax	2.1	1.4
Other profit after tax	12.5	10.5
	14.6	11.9

EXPLANATORY NOTES TO THE ANNUAL ACCOUNTS FOR 2004

Principles for valuation of assets and liabilities and determination of result

Unless otherwise stated, the same valuation principles have been used to draw up the corporate annual accounts as those used for the consolidated annual accounts.

Where no further explanation is given, see the consolidated annual accounts and notes to the consolidated annual accounts.

Financial fixed assets

Participating interests

Changes in the value of participating interests in group companies can be broken down as follows:

	2004	2003
Position as at 1 January	19.4	18.1
Result	2.1	1.4
Exchange rate differences	–0.1	–0.1
Dividends	–8.9	0.0
Position as at 31 December	12.5	19.4

Participating interests in consolidated group companies are valued at net asset value.

Receivables from participating interests	2004	2003
Loan to Vredestein Iberica S.A. *	1.0	1.0
Finlo	0.2	0.2
	1.2	1.2

* *This refers to a subordinated loan and in the event of bankruptcy, suspension of payment (for the duration of the suspension) or dissolution, no payment of the capital sum still outstanding will be made before the claims of all other creditors have been paid.*

The loan has no repayment schedule and the interest rate is variable and dependent on EURIBOR with a profit-related surcharge.

Trade receivables	2004	2003
Trade receivables	12.3	11.7

A provision for uncollectable accounts of 1.4 million euros (2003: 1.7 million euros) has been deducted from trade receivables.

Shareholders' equity

Changes in shareholders' equity can be broken down as follows:

	Issued capital	Share premium reserve	Other reserves	Undistributed profit	TOTAL
Position as at 1 January 2003	9.1	31,6	17.3	8.9	66.9
Profit added to reserves			5.8	–5.8	0.0
Dividend				–3.1	–3.1
Undistributed profit				11.9	11.9
Position as at 31 December 2003	9.1	31.6	23.1	11.9	75.7
Position as at 1 January 2004	9.1	31.6	23.1	11.9	75.7
Profit added to reserves			1.9	–1.9	0.0
Dividend				–10.0	–10.0
Undistributed profit				14.6	14.6
Position as at 31 December 2004	9.1	31.6	25.0	14.6	80.3

Issued capital
The registered share capital of Vredestein Banden B.V. amounts to 27.2 million euros, divided into sixty thousand ordinary shares of 454 euros.

With reference to article 178c 2 of the Netherlands Civil Code, it should be noted that 20,000 of these shares have been issued. In accordance with the articles of association, the shares are denominated in thousands of Dutch guilders per share.

Share premium reserve
The share premium reserve includes the revenues from share issues, where these are greater than the nominal value of the shares (revenues above par).

Salaries Board of Management
Salaries paid to the Board of Management amounted to 0.6 million euros (2003: 0.6 million euros).

Enschede, 18 March 2005

The Board of Management:

Drs. R.H. Oudshoorn
Drs. A.W. Tholens

OTHER INFORMATION

PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING PROFIT APPROPRIATION

Article 14: Profit appropriation:

1. The company can only make payments of distributable profit to the shareholders and any other entitled parties to the extent that the company's shareholders' equity exceeds the amount of the paid-up and called-up capital, plus the reserves that must be maintained according to the law.

2. The profit disclosed in the income statement adopted by the General Meeting of Shareholders is available to the General Meeting of Shareholders.

3. The company may only make interim payments if the requirements of paragraph 1 have been fulfilled and with the prior approval of the Board of Supervisory Directors.

4. The company does not make dividend payments on shares of its equity acquired by the company, nor on shares for which the company holds certificates.

5. Shares on which the company does not pay dividends in accordance with the provisions of paragraph 4 are not taken into account in calculating the profit distribution.

PROPOSAL FOR PROFIT APPROPRIATION

After approval by the Board of Supervisory Directors, the management proposes that the whole of the net profit for the financial year ending 31 December 2004 should be made available to the Shareholders as an interim dividend. The management will also propose to the General Meeting of Shareholders that an extra interim dividend payment of 0.4 million euros should be made from the free distributable reserves.

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE BALANCE SHEET AS OF 30 JUNE 2005 AND ON THE STATEMENT OF INCOME FOR THE SIX MONTHS THEN ENDED OF VREDESTEIN BANDEN B.V.

KPMG

INDEPENDENT AUDITORS' REVIEW REPORT ON THE BALANCE SHEET AS OF 30 JUNE 2005 AND ON THE STATEMENT OF INCOME FOR THE SIX MONTHS THEN ENDED OF VREDESTEIN BANDEN B.V.

Vredestein Banden B.V.
Attn. Mr. T. Tholens
Postbus 27
7500 AA ENSCHEDE

KPMG Moscow
Attn. Mr. Oleg Goshchansky
11, Gogolevsky Boulevard
Russia, Moscow

Following our assignment to review the interim results of Vredestein Banden B.V. as per June 30, 2005 we herewith report on our findings.

We have reviewed the attached schedule of the interim consolidated balance sheet of Vredestein Banden B.V. (the ''Company'') as of 30 June 2005 and of the related interim consolidated statement of income for the six months then ended, which were prepared in accordance with the accounting principles generally accepted in the Netherlands.

The Schedule does not include disclosure to the Dutch GAAP financial statements. This Schedule is the responsibility of the Company's management. Our responsibility is to issue a report on this Schedule based on our review.

We conducted our review in accordance with International Standard on Review Engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the attached interim statements do not give a true and fair view for the six months ended 30 June 2005.

Enschede, 6 October 2005

KPMG Accountants N.V.

Ref.: J.H.M. van der Meer

Initials for identification purposes:

KPMG Accountants N.V. KPMG Accountants N.V., registered under number 33263683 with the Chamber of Commerce in Amsterdam, is a member of KPMG International, a Swiss cooperative.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2005

Before profit appropriation

	30.06.2005 (in millions of euros)
ASSETS	
Fixed assets	
Tangible fixed assets	50.7
Financial fixed assets	6.3
	57.0
Current assets	
Inventories	45.5
Receivables	63.3
Cash at bank and in hand	2.5
	111.3
TOTAL	168.3
LIABILITIES	
Shareholders' equity	56.3
Provisions	23.9
Long-term debt	2
Short-term debt	86.1
TOTAL	168.3

CONSOLIDATED INCOME STATEMENT

	01.01.2005-30.06.2005 (in millions of euros)
Net sales	105.2
Cost of sales	73.3
Gross profit	31.9
Selling costs	16.2
General management costs	8.3
Total costs	24.5
Net profit	7.4
Other operating revenues	0
Operating result	7.4
Interest charges and similar costs	–0.6
Operating result before taxes	6.8
Taxes	–1.9
Income from participating interests	0
NET RESULT	4.9

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AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.)

and

VREDESTEIN BANDEN B.V.
Unaudited Pro forma Consolidated Financial Information

Contents

INDEPENDENT ACCOUNTANTS' REPORT ON PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The Directors
Amtel-Vredestein N.V. (formerly Amtel Holdings Holland N.V.)

We report on the pro forma consolidated financial information set out in Part F of the Prospectus dated 11 November 2005, which has been prepared on the basis described in note 2, for illustrative purposes only, to provide information about how the acquisition of Vredestein Banden B.V. (the ''Company'') might have affected the financial information presented on the basis of the accounting policies adopted by Amtel-Vredestein N.V. (the ''Issuer'') in preparing the financial statements as of and for the six-month period ended 30 June 2005. This report is required by Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that requirement and for no other purpose. It is based on the published interim consolidated condensed financial information of the Issuer and the Company as of and for the six-month period ended 30 June 2005 and the consolidated financial statements of the Company as of and for the year ended 31 December 2004 set out in the accountants' report in Part F of the Prospectus, adjusted only to reflect the effect of the transactions set out in the notes to the pro forma consolidated financial information.

Responsibilities

It is the responsibility solely of the Directors of the Issuer to prepare the pro forma consolidated financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation as to the proper compilation of the pro forma consolidated financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma consolidated financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma consolidated financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board of the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma consolidated financial information with the Directors of the Issuer.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma consolidated financial information has been properly compiled on the basis stated.

Our work has not been carried out in accordance with auditing or other standards generally accepted in the United States of America, or in accordance with International Standards on Auditing, and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

- the pro forma consolidated financial information has been properly compiled on the basis set out therein;
- such basis is consistent with the accounting policies of the Issuer as adopted in its financial statements as of and for the six-month period ended 30 June 2005.

Declaration

We are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex X of the Prospectus Directive Regulation.

KPMG Limited

KPMG Limited
11 November 2005

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004

	Vredestein Banden B.V.							
	Dutch GAAP MLN EUR (1)	IFRS Adjustments MLN EUR (2)	IFRS MLN EUR (3) = (1) + (2)	IFRS MLN RUR (4) = (3) x 37.81	Amtel-Vredestein N.V. MLN RUR (5)	Pro forma adjustments MLN RUR (6)	Ref.	Pro forma consolidated MLN RUR (7) = (4) + (5) + (6)
Non-current assets								
Property, plant and equipment	50.5	70.4	120.9	4,571	7,750	–		12,321
Intangible assets	–	27.4	27.4	1,036	2,403	2,437	**(C)**	5,876
Long-term financial assets	0.1	–	0.1	4	230	–		234
Long-term receivables and other assets	–	3.8	3.8	144	–	–		144
Deferred tax asset	–	1.4	1.4	53	68	–		121
	50.6	103.0	153.6	5,808	10,451	2,437		18,696
Current assets								
Inventories	32.8	0.2	33.0	1,248	1,909	–		3,157
Trade and other receivable	52.0	2.7	54.7	2,068	2,124	–		4,192
Short-term financial assets	–	–	–	–	96	–		96
Cash and cash equivalents	6.0	2.8	8.8	333	195	–		528
	90.8	5.7	96.5	3,649	4,324	–		7,973
Total assets	141.4	108.7	250.1	9,457	14,775	2,437		26,669

The pro forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial information set out on pages 9 to 12(*).

The pro forma financial information was approved on 11 November 2005:

Alexei Gurin
Chief Executive Officer

Victor Nekrassov
Chief Financial Officer

(*) *The reference to pages 9 to 12 relates to pages F-99 to F-102 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.) and Vredestein Banden B.V.
Unaudited pro forma consolidated financial information

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004

Continued

	Vredestein Banden B.V.							
	Dutch GAAP MLN EUR (1)	IFRS Adjustments MLN EUR (2)	IFRS MLN EUR (3) = (1) + (2)	IFRS MLN RUR (4) = (3) x 37.81	Amtel-Vredestein N.V. MLN RUR (5)	Pro forma adjustments MLN RUR (6)	Ref.	Pro forma consolidated MLN RUR (7) = (4) + (5) + (6)
Non-current liabilities								
Long-term payables and accruals	3.4	7.7	11.1	420	–	–		420
Finance lease liabilities	–	–	–	–	822	–		822
Deferred tax liability	0.5	29.4	29.9	1,131	755	(99)	**(E)**	1,787
Long-term loans and borrowings	6.5	–	6.5	246	2,019	5,647	**(D)**	7,912
	10.4	37.1	47.5	1,797	3,596	5,548		10,941
Current liabilities								
Short-term loans and borrowings	5.8	2.8	8.6	325	2,813	–		3,138
Trade and other payables	44.9	8.2	53.1	2,009	1,785	–		3,794
	50.7	11.0	61.7	2,334	4,598	–		6,932
Equity								
Attributable to the shareholders of the Parent	80.3	60.6	140.9	5,326	6,279	(3,111)		8,494
Attributable to minority interests	–	–	–	–	302	–		302
Total liabilities and equity	141.4	108.7	250.1	9,457	14,775	2,437		26,669

The pro forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial information set out on pages 9 to 12(*).

(*) *The reference to pages 9 to 12 relates to pages F-99 to F-102 in this Prospectus.*

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2004

	Vredestein Banden B.V.				Amtel-Vredestein N.V.				
	Dutch GAAP MLN EUR (1)	IFRS Adjustments MLN EUR (2)	IFRS MLN EUR (3) = (1) + (2)	IFRS MLN RUR (4) = (3) x 35.82	IFRS MLN RUR (5)	Adjustment (A) MLN RUR (6)	Pro forma adjustments MLN RUR (7)	Ref.	Pro forma consolidated MLN RUR (8) = (4) + (5)+(6)+(7)
Sales	230.8	(9.9)	220.9	7,912	13,850	(3,325)	–		18,437
Cost of sales	(156.7)	10.0	(146.7)	(5,254)	(11,126)	2,991	–		(13,389)
	74.1	0.1	74.2	2,658	2,724	(334)	–		5,048
Depreciation charge related to cost of sales	(11.5)	(7.7)	(19.2)	(688)	(739)	143	–		(1,284)
	62.6	(7.6)	55.0	1,970	1,985	(191)	–		3,764
Other operating income	0.8	0.5	1.3	47	166	(166)	–		47
Selling expenses	(29.3)	0.2	(29.1)	(1,042)	(450)	138	–		(1,354)
Administration expenses	(10.3)	4.7	(5.6)	(201)	(972)	78	–		(1,095)
Taxes, other than on profit	–	–	–	–	(78)	6	–		(72)
Impairment losses and reversal of impairment losses, net	–	–	–	–	60	–	–		60
Gain/loss on disposal of property, plant and equipment	–	–	–	–	(42)	1	–		(41)
Gains and losses related to acquisitions, restructuring and disposals of subsidiaries	–	–	–	–	63	–	–		63
Other operating expenses	–	–	–	–	(125)	25	–		(100)
	23.8	(2.2)	21.6	774	607	(109)	–		1,272
Financing costs	(1.4)	(0.3)	(1.7)	(61)	(631)	93	(286)	**(D)**	(885)
Loss from investments in associates and joint ventures	–	–	–	–	(11)	–	–		(11)
	22.4	(2.5)	19.9	713	(35)	(16)	(286)		376
Income taxes	(7.8)	3.4	(4.4)	(158)	2	(31)	99	**(E)**	(88)
Profit after tax	14.6	0.9	15.5	555	(33)	(47)	(187)		288
Gains/(losses) attributable to:									
The shareholders of the parent company	14.6	0.9	15.5	555	129	(166)	(187)		331
The minority shareholders	–	–	–	–	(162)	119	–		(43)
	14.6	0.9	15.5	555	(33)	(47)	(187)		288

The pro forma consolidated statement of income for the year ended 31 December 2004 is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial information set out on pages 9 to 12(*).

(*) *The reference to pages 9 to 12 relates to pages F-99 to F-102 in this Prospectus.*

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Vredestein Banden B.V.				Amtel-Vredestein N.V.				
	Dutch GAAP MLN EUR (1)	IFRS Adjustments MLN EUR (2)	IFRS MLN EUR (3) = (1) + (2)	IFRS MLN RUR (4) = (3) x 36.04	IFRS MLN RUR (5)	Adjustment (B) MLN RUR (6)	Pro forma adjustments MLN RUR (7)	Ref.	Pro forma consolidated MLN RUR (8) = (4) + (5)+(6)+(7)
Sales	105.2	–	105.2	3,791	7,990	(1,322)	–		10,459
Cost of sales	(67.6)	0.9	(66.7)	(2,404)	(5,920)	836	–		(7,488)
	37.6	0.9	38.5	1,387	2,070	(486)	–		2,971
Depreciation charge related to cost of sales	(5.7)	(4.1)	(9.8)	(353)	(495)	120	–		(728)
	31.9	(3.2)	28.7	1,034	1,575	(366)	–		2,243
Other operating income	–	–	–	–	–	–	–		–
Selling expenses	(16.2)	0.3	(15.9)	(573)	(455)	226	–		(802)
Administration expenses	(8.3)	1.8	(6.5)	(234)	(598)	102	–		(730)
Taxes, other than on profit	–	–	–	–	(59)	–	–		(59)
Impairment losses and reversal of impairment losses, net	–	–	–	–	–	–	–		–
Gain on disposal of property, plant and equipment	–	–	–	–	12	–	–		12
Gains and losses related to acquisitions, restructuring and disposals of subsidiaries	–	–	–	–	152	–	–		152
Other operating expenses	–	(0.2)	(0.2)	(7)	(129)	7	–		(129)
	7.4	(1.3)	6.1	220	498	(31)	–		687
Financing costs	(0.6)	(0.4)	(1.0)	(36)	(402)	30	(97)	**(D)**	(505)
	6.8	(1.7)	5.1	184	96	(1)	(97)		182
Income taxes	(1.9)	0.3	(1.6)	(58)	(71)	–	31	**(E)**	(98)
Profit after tax	4.9	(1.4)	3.5	126	25	(1)	(66)		84
Gains/(losses) attributable to:									
The shareholders of the parent company	4.9	(1.4)	3.5	126	26	(1)	(66)		85
The minority shareholders	–	–	–	–	(1)	–	–		(1)
	4.9	(1.4)	3.5	126	25	(1)	(66)		84

The pro forma consolidated statement of income for the six-month period ended 30 June 2005 is to be read in conjunction with the notes to and forming part of the pro forma consolidated financial information set out on pages 9 to 12(*).

(*) *The reference to pages 9 to 12 relates to pages F-99 to F-102 in this Prospectus.*

AMTEL-VREDESTEIN N.V.
(formerly Amtel Holdings Holland N.V.) and
VREDESTEIN BANDEN B.V.
Notes to the unaudited pro forma consolidated financial information

1. Explanatory notes

(a) The transaction

Amtel-Vredestein N.V. (formerly, Amtel Holdings Holland N.V.), further referred to as ''the Issuer'', is a public limited liability company as defined by the Civil Law of the Netherlands. Amtel-Vredestein N.V. is the Parent Company of the Amtel Group.

On 25 April 2005 Amtel Group acquired Vredestein Banden B.V. (''Vredestein'') in a transaction accounted for as a business combination.

As consideration for the acquisition the Issuer exchanged EUR 195.6 million in cash for all of the outstanding shares in Vredestein. The Issuer also incurred transaction costs of EUR 4.3 million.

The total cost of the business combination of approximately EUR 199.9 million has been allocated to the tangible and identifiable intangible assets acquired, and liabilities and contingent liabilities assumed on the basis of their estimated fair values on the acquisition date. The Issuer accounted for the business combination in its interim consolidated condensed financial information as of and for the six-month period ended 30 June 2005 on a provisional basis.

This unaudited pro forma consolidated financial information gives effect to the acquisition by the Issuer of Vredestein. The unaudited pro forma consolidated statements of income combine the results of operations of the Issuer and Vredestein for the year ended 31 December 2004 and the six-month period ended 30 June 2005, as if the acquisition had occurred on 1 January 2004.

The pro forma adjustments are based on available information and certain assumptions and may be revised as additional information becomes available. The unaudited pro forma consolidated financial information is not intended to represent what the Issuer's financial position or results of operations would actually have been if the acquisition had occurred on this date, or to project the Issuer's financial position or results of operations for any future period. Since the Issuer and Vredestein were not under common control or management for periods prior to 25 April 2005, the unaudited pro forma consolidated financial results may not be comparable to, or indicative of, future performance. This unaudited pro forma consolidated financial information should be read in conjunction with the historical consolidated financial statements of the Issuer and Vredestein respectively.

(b) Basis of preparation

This unaudited pro forma consolidated financial information has been prepared in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation (Commission Regulation (EC) No 809/2004 of 29 April 2004).

(c) Accounting principles of the underlying historical financial information

The Issuer prepares its financial statements in accordance with International Financial Reporting Standards (''IFRS'') and related interpretations adopted by the International Accounting Standards Board (''IASB'').

Vredestein prepares its financial statements in accordance with Dutch accounting principles (''Dutch GAAP''). For the purposes of this unaudited pro forma consolidated financial information, the financial statements of Vredestein were adjusted for differences between Dutch GAAP and the accounting policies applied by the Amtel Group in preparing its consolidated financial statements in accordance with IFRS.

(d) Sources of information

The pro forma consolidated balance sheet as of 31 December 2004 and pro forma consolidated statement of income for the year then ended have been prepared on the basis of the audited consolidated financial statements of the Issuer prepared in accordance with IFRS as of and for the year ended 31 December 2004, and the audited consolidated financial statements of Vredestein Banden B.V. as of and for the year ended 31 December 2004 prepared in accordance with Dutch GAAP.

The pro forma consolidated statement of income for the six-month period ended 30 June 2005 has been prepared on the basis of the unaudited interim consolidated condensed financial information for the six-month period ended 30 June 2005 of the Issuer prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting,* and unaudited interim consolidated condensed financial information for the six-month period ended 30 June 2005 of Vredestein Banden B.V. prepared in accordance with Dutch GAAP.

2. Underlying assumptions

The following assumptions have been made in preparing this unaudited pro forma consolidated financial information:

(a) The acquisition date

The transaction described in note 1(a) occurred on 1 January 2004.

(b) The cost of the business combination

The cost that would have been incurred for the shares of Vredestein and the transaction costs directly attributable to the business combination had the acquisition taken place on 1 January 2004, would have been equal to the actual consideration and transaction costs paid in April 2005 and amounted to EUR 195.6 million and EUR 4.3 million, respectively.

(c) Fair values

The estimated fair values of tangible assets, identifiable intangible assets, liabilities and contingent liabilities of Vredestein on 1 January 2004 were the same as their fair values on 25 April 2005, adjusted for the amount of recognized gains and losses and other changes in shareholders' equity of Vredestein from 1 January 2004 to 25 April 2005.

(d) The financing of the transaction

The transaction to acquire Vredestein was financed with the following bank loans:

➤ EUR 118 million of long-term loan with an effective interest rate of approximately 4.88% per annum linked to Euribor;

➤ EUR 82 million of long-term loan with fixed interest of 9.95% per annum.

In June 2005 the Group issued US dollar denominated credit linked notes for approximately RUR 4,937 million/USD 175 million/EUR 143 million with an average effective interest rate of 9.25% per annum. In addition the Issuer issued ordinary shares representing approximately 12% of the share capital for RUR 2,003 million/USD 70 million/EUR 58 million. The proceeds from these transactions were partially used to repay the EUR 82 million loan referred to above.

Thus, if the Issuer had acquired Vredestein on 1 January 2004, the transaction would have been financed with the following funding obtained on 1 January 2004:

➤ EUR 118.0 million of long-term loan with an average interest rate of 4.88% per annum (linked to EURIBOR);

➤ EUR 58.1 million of proceeds from the private placement of shares;

➤ EUR 23.8 million of proceeds from credit linked notes with an average interest rate of 9.25% per annum.

This unaudited pro forma consolidated financial information also assumes no cash settlements of interest and principal amounts of the loans from 1 January 2004 to 25 April 2005.

(e) Functional and presentation currency

The Parent Company's functional currency and the currency in which the historical consolidated financial statements of the Issuer are presented, is the Russian Ruble (''RUR'').

The functional currency in which the historical financial statements of Vredestein are prepared is EUR.

For the purposes of this pro forma consolidated financial information the financial statements of Vredestein were translated to RUR at the following exchange rates as published by the Central Bank of the Russian Federation (''CBR''):

Pro forma statement	Description	Rate: RUR/ 1 EUR
Assets and liabilities as of 31 December 2004	Spot rate at close of the business on 31 December 2004	37.81
Statement of income for the year ended 31 December 2004	Average rate for 2004	35.82
Statement of income for the six-month period ended 30 June 2005	Average rate for the six-month period ended 30 June 2005	36.04

The resulting exchange differences for the year ended 31 December 2004 and for the six-month period ended 30 June 2005 were not recorded in the statement of income as they would have represented the foreign exchange differences arising from a net investment in foreign operations and would have been recognized as part of equity.

3. Pro forma adjustments

The below adjustments have been reflected in the unaudited pro forma consolidated financial information. These adjustments are expected to have a continuing impact on the Issuer:

Adjustment (A)

The adjustment represents elimination of the results of operations of ZAO Rosava from the consolidated statement of income of the Issuer for the year ended 31 December 2004. The Amtel Group lost control over the subsidiary on 31 December 2004 and it was excluded from the scope of the consolidated financial statements from that date.

Adjustment (B)

The adjustment represents elimination of the results of operations of Vredestein for the period from 25 April to 30 June 2005. These results are included in the consolidated financial statements of the Issuer for the six-month period ended 30 June 2005.

Adjustment (C)

The adjustment corresponds to the pro forma goodwill on the investment in Vredestein assuming that the acquisition was made on 1 January 2004. The acquisition of Vredestein is assumed to involve pro forma goodwill on consolidation as shown below:

	EUR million
Pro forma cost of business combination	195.6
Transaction costs directly attributable to the business combination	4.3
Pro forma fair value of the net identifiable assets acquired	(135.4)
The excess of the consideration paid over the fair value of the net identifiable assets, liabilities and contingent liabilities (pro forma goodwill)	64.5
Translated to RUR at foreign exchange rate as of 31 December 2004–in million RUR	2,437

The pro forma goodwill of EUR 64.5 differs from the actual goodwill on the acquisition of Vredestein amounting to EUR 83.9 million by the amount of recognized gains and losses and other changes in shareholders' equity of Vredestein from 1 January 2004 to 25 April 2005 — refer to notes 2(b) and 2(c) for assumptions applied to the cost of the business combination and the fair values of the net identifiable assets.

Adjustment (D)

Interest that would have been payable for the year 2004 and for the six-month period ended 30 June 2005 based on an assumed interest rate of 4.88% for the loans from ING bank and 9.25% for credit linked notes.

Adjustment (E)

The tax effect of interest recorded as adjustment (D) from the loans from Alfa Bank and ING Bank based on the Dutch corporate tax rate of 34.5% for 2004 and 31.5% for 2005.

4. Pro forma earnings before interest, tax, depreciation and amortisation

	Six months ended 30 June 2005 RUR million	Year ended 31 December 2004 RUR million
Profit attributable to equity holders of the Parent	85	331
Adjustments for:		
Interest expense and income, net	618	891
Income tax expense	98	88
Taxes other than profit	59	72
Depreciation and amortisation expense	738	1,293
	1,598	2,675

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Amtel-Vredestein N.V.
(formerly Amtel Holdings Holland N.V.)
2002 Stand-Alone Financial Statements

AMTEL HOLDINGS HOLLAND B.V.
(Rotterdam)

BALANCE SHEET
December 31, 2002
(after appropriation of the result for the year)

	12/31/02
ASSETS	
FIXED ASSETS:	
Financial fixed assets	191,654,000
	191,654,000
CURRENT ASSETS:	
Cash at bank	21,089
	21,089
	191,675,089
SHAREHOLDER'S EQUITY AND LIABILITIES	
SHAREHOLDER'S EQUITY:	
Issued share capital	21,013
Share premium	191,653,990
Translation reserve	(1,222)
Deficit	(67,588)
	191,606,193
CURRENT LIABILITIES	68,896
	191,675,089

These Financial Statements were determined and adopted by the Annual General Meeting of Shareholders held on February 5, 2004.

Amsterdam, February 5, 2004

AMTEL HOLDINGS HOLLAND B.V.
(Rotterdam)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002
(Expressed in US Dollars)

General
The Company was incorporated on July 30, 2002. The first financial year started July 30, 2002 and ended at December 31, 2002 and therefor covers a 5 month period.

The authorized share capital of the Company consists of 8,000 ordinary shares and 2,000 non-cumulative preference shares with a par value of EUR 10 each (EUR 100,000). At December 31, 2002, 2,001 ordinary shares were issued and fully paid.

These financial statements are prepared in accordance with Title 9, Book 2, of the Dutch Civil Code.

Reporting currency
The Company uses its functional currency being the US Dollars, as its reporting currency.

Accounting policies in respect of the valuation of assets and liabilities

General
These financial statements have been prepared in accordance with the Dutch generally accepted accounting principles and they are denominated in US Dollars. Assets and liabilities are stated at their historical cost, unless indicated otherwise.

Amsterdam, February 5, 2004

AMTEL HOLDINGS HOLLAND B.V.
(Rotterdam)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002
(Expressed in US Dollars)

Shareholder's equity

	Issued share capital	Share premium	Translation reserve	Deficit	Total
Issue of common shares	19,781	–	–	–	19,781
Result for the period	–	–	–	(67,588)	(67,588)
Revaluation	1,222	–	(1,222)	–	–
Capital contribution (*)	10	191,653,990	–	–	191,654,000
Balance as at December 31, 2002	21,013	191,653,990	(1,222)	(67,588)	191,606,193

Other notes

Average number of employees
During the period under review the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

XXXXXXXX

Amsterdam, February 5, 2004

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